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CSR and the Development of CSR Reporting in the Chinese Banking Sector

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**CSR and the Development of CSR Reporting
in the Chinese Banking Sector**

LING WANG

A THESIS SUBMITTED TO THE UNIVERSITY OF DUNDEE IN FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
DOCTOR OF PHILOSOPHY

SCHOOL OF BUSINESS
UNIVERSITY OF DUNDEE
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CSR and the Development of CSR Reporting in the Chinese Banking Sector

Ling Wang

**A Thesis Submitted to the University of Dundee in Fulfilment of the Requirements for the
Degree of Doctor of Philosophy, November 2014.**

To My Family, Especially My Daughter

Table of Contents

Table of Contents.....	IV
Acronyms.....	VIII
List of Figures.....	IX
List of Tables.....	X
Acknowledgements.....	XI
Declaration.....	XII
Abstract.....	XIII
Chapter 1 Introduction	1
1.1 Overview.....	1
1.2 Motivations.....	2
1.3 Research Questions.....	4
1.4 Structure of the Thesis.....	6
Chapter 2 Literature Review	9
2.1 Introduction.....	9
2.2 Meanings and Practice of CSR.....	11
2.3 The Purpose of the Corporation and Stakeholder Management.....	19
2.4 Accountability.....	24
2.5 Banking and CSR.....	28
2.5.1 CSR and Bank Lending Decisions.....	30
2.5.2 Equator Principles.....	31
2.6 Globalization.....	34
2.7 CSR in Asian Countries.....	36
Chapter 3 CSR in the Chinese Context	41
3.1 Introduction.....	41
3.2 China and Chinese CSR.....	41
3.2.1 Chinese History, Political and Cultural Background.....	41
3.2.2 Chinese Economic Growth and CSR Development.....	46
3.2.3 The Harmonious Society and Chinese CSR.....	51
3.3 The Chinese Green Lending Policy.....	54
Chapter 4 Theoretical Framework	57
4.1 Introduction.....	57
4.2 Stakeholder Theory.....	60
4.3 Legitimacy Theory.....	67
4.4 Institutional Theory.....	73

4.5 Political Economy Theory.....	75
4.6 Conclusion.....	78
Chapter 5 Methodology and Methods	80
5.1 Introduction.....	80
5.2 Research Paradigms.....	80
5.2.1 Ontology.....	82
5.2.2 Epistemology.....	83
5.2.3 Regulation and Radical Change.....	86
5.2.4 Burrell and Morgan's Four Paradigms.....	87
5.2.5 Other Perspectives on Research Paradigms.....	89
5.3 Research Methodology, the Interpretive Paradigm.....	90
5.4 Research Methods.....	91
5.4.1 Semi-Structured Interviews.....	92
5.4.2 Content Analysis (disclosure index).....	96
5.5 Conclusion.....	103
Chapter 6 Overview of the Chinese Banking Sector, CSR Guidelines and an Analysis of CSR Reports	105
6.1 Introduction.....	105
6.2 The Chinese Banking Sector.....	106
6.3 The Regulatory and Legal Framework of CSR in China.....	111
6.3.1 CSR, Company Law and Corporate Governance.....	111
6.3.2 Chinese CSR Guidelines Influencing Companies in General and Banks in Particular.....	112
6.3.3 The CSR Guidelines from the Shenzhen Stock Exchange.....	113
6.3.4 CSR Guidelines from the China Banking Regulatory Commission (CBRC).....	115
6.3.5 CSR Guidelines from the Shanghai Stock Exchange.....	117
6.3.6 CSR Guidelines from the China Banking Association (CBA).....	120
6.4 Sustainability Reporting Guidelines & Financial Services Sector Supplement from GRI.....	123
6.5 Data Selection and Preparation.....	128
6.5. 1 Bank Details.....	128
6.5.2 CSR Reports Overview and Different Volumes of CSR Disclosure.....	131
6.5.3 Applied Different Guidelines.....	137
6.6 Disclosure Index Analysis by GRI G3 Indicators.....	142
6.6.1 Overall Summary.....	143
6.6.2 Disclosure Index Analysis by GRI Indicators in the 2005 CSR report.....	146

6.6.3 Disclosure Index Analysis by GRI Indicators in 2006 CSR reports.....	148
6.6.4 Disclosure Index Analysis by GRI Indicators in 2007 CSR report.....	152
6.6.5 Disclosure Index Analysis by GRI Indicators in 2008 CSR report.....	159
6.6.6 Disclosure Index Analysis by GRI Indicators in 2009 CSR Reports.....	166
6.7 Conclusion.....	174
Chapter 7 Semi-Structured Interviews in China	178
7.1 Introduction.....	178
7.2 Background to Collecting and Analysing the Empirical Findings.....	181
7.3 Understanding of Corporate Social Responsibility in China.....	183
7.3.1 Academic and Personal Opinions of the meaning of CSR Concept in China.....	184
7.3.2 Interviewees Who Have no Particular Knowledge of the CSR Concept but Who Expressed Personal Opinions.....	194
7.3.3 Summary.....	196
7.4 The Motivations for Implementing CSR Activities and Disclosing CSR Reports.....	197
7.4.1 The Interview with the Auditing Firm.....	197
7.4.2 Interviews with the Foreign Banks in China.....	198
7.4.3 Interviews with the Chinese Commercial Banks.....	200
7.4.4 Interviews with the Government State-owned Banks.....	202
7.4.5 Interviews with the Academic Professor and CSR Consultant.....	204
7.4.6 Summary.....	205
7.5 The Influences of CSR.....	207
7.5.1 Financial Influences.....	207
7.5.2 Influences of Stakeholder Relationships and Corporation Image.....	210
7.5.3 Personal Effects of CSR.....	215
7.5.4 Summary.....	216
7.6 The Motivations for Giving CSR Guidelines from the Regulators and the Banks' Decision on Adopting Guidelines.....	217
7.6.1 The Interview Answers Obtained From Four interviewees before 2013.....	218
7.6.2 The Interview Answers Obtained from Three interviewees in 2013.....	220
7.6.3 Summary.....	221
7.7 Who are regarded as the most important stakeholders and are there any Cultural or Political Influences on This Decision?.....	222
7.7.1 Summary.....	225
7.8 Consideration of Factors affecting Lending Decisions.....	226
7.8.1 Summary.....	229
7.9 Suggestions on CSR Improvement.....	230

7.9.1 Suggestions from the Interviewees at Auditing Firm.....	230
7.9.2 Suggestions from the Interviewees at Foreign Banks.....	231
7.9.3 Suggestions from the Interviewees at the Chinese Commercial Banks.....	232
7.9.4 Suggestions from the Interviewees at Government State-owned Banks and Academic Areas.....	233
7.10 Conclusion.....	234
Chapter 8 Conclusion	239
8.1 Introduction.....	239
8.2 Summary of Research.....	239
8.3 Research Findings from Interviews.....	241
8.3.1 Interview Experiences in China.....	241
8.3.2 The Concept of Corporate Social Responsibility and Important Stakeholders under the Cultural and Political Backgrounds.....	242
8.3.3 The Motivations for Implementing and Disclosing CSR.....	245
8.4 Research Findings from Content Analysis.....	249
8.5 Research Contributions, Limitations and Suggestions for Future Research.....	254
8.5.1 Contributions.....	254
8.5.2 Limitations.....	256
8.5.3 Further study.....	258
8.6 Concluding Remarks.....	259
References.....	260
Appendix 6.1- GRI Reference Sheet.....	277
Appendix 7.1 - Interview Questions.....	282

Acronyms

AA1000SES	The AA1000 Stakeholder Engagement Standard
CBA	China Banking Association
CCP	Central Committee of the Communist Party of China
CBRC	China Banking Regulatory Commission
CERES	Coalition for Environmentally Responsible Economies
CPPCC	Chinese People's Political Consultative Conference
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
EC	European Commission
EIA	Environmental Impact Assessment
EPFI	Equator Principles Financial Institution
FSSS	Financial Services Sector Supplements
GRI	Global Reporting Initiative
IFC	International Finance Corporation
MEP	Ministry of Environmental Protection
NIE	New Institutional Economics
NIS	New Institutional Sociology
NGO	Non-Government Organizations
NPC	National People's Congress
NPV	Net Present Value
OIE	Old Institutional Economics
SASAC	State-owned Assets Supervision and Administration Commission Of the State Council
SCVPS	Social Contribution Value Per Share
SEPA	State Environmental Protection Administration of China
SME	Small and Medium Enterprises
SOE	State Owned Enterprise
SSE	Shenzhen Stock Exchange
UNEP-FI	United Nations Environment Program-Finance
UNGC	United Nations Global Compact
VIP	Very Important Person
WTO	World Trade Organization

List of Figures

Figure 3- 1 Map of China (Source: Adapted from Geology World, 2013).....	41
Figure 3- 2 Graph of China GDP Growth from 2004 to 2012.....	47
Figure 4- 1 Three Aspects of Stakeholder Theory.....	64
Figure 5- 1 Burrell and Morgan’s (1979) Schema for Analysing Assumptions About the Nature of Social Science Research.....	82
Figure 5- 2 The Regulation-Radical Change Dimension.....	87
Figure 5- 3 Burrell and Morgan’s (1979) Matrix for the Analysis of Social Theory.....	87
Figure 6- 1 China Banking Sector Overview.....	107
Figure 6- 2 China Banking Industry Share by Assets.....	110
Figure 6- 3 GRI Reporting Trend.....	127
Figure 6- 4 GRI Financial Services Sector Reporting Trend: 2008 to 2012.....	128
Figure 6- 5 Graph of Mean Percentage from 2005 to 2009.....	144

List of Tables

Table 3-1 Timelines of China leadership and Social Objectives.....	44
Table 6-1 Guidelines Overview.....	113
Table 6-2 Summary of the key elements of each of the Chinese CSR Guidelines which have reference to the banking sector.....	122
Table 6-3 Summary of the GRI Sustainability Reporting Guidelines & Financial Services Sector Supplement (2008).....	126
Table 6-4 Summary details of the 19 banks (ranked by size of the bank).....	130
Table 6-5 Summary of the Incidence of CSR reports.....	131
Table 6-6 Number of pages in the banks' CSR reports by year.....	133
Table 6-7 Summary of different guidelines adopted by 19 banks.....	137
Table 6-8 Mean Percentage from 2005 to 2009.....	143
Table 6-9 Number of GRI Indicators disclosed by Category in Banks 2005 CSR Reports.....	146
Table 6-10 Number of GRI Indicators disclosed by Category in Banks 2006 CSR Reports.....	148
Table 6-11 Number of GRI Indicators disclosed by Category in Banks 2007 CSR Reports.....	152
Table 6-12 Number of GRI Indicators disclosed by Category in Banks 2008 CSR Reports.....	159
Table 6-13 Number of GRI Indicators disclosed by Category in Banks 2009 CSR Reports.....	167
Table 7-1 A Descriptive Analysis of Interviewees.....	180

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Declaration

I hereby declare that I am the author of this thesis, that the work of which this thesis is a record has been done by myself and that it has not previously been accepted for a higher degree.

Signed:..... Date.....

Ling Wang

Certificate

We certify that Ling Wang has worked the equivalent of nine terms on this research, and that the conditions of the relevant ordinance and regulation have been fulfilled.

Signed:..... Date.....

Professor David Collison

Signed:..... Date.....

Ms Lorna Stevenson

Abstract

This study introduces corporate social responsibility (CSR) with the background of the Chinese context first, and then analyses the development of CSR reporting in the Chinese banking sector during the period from 2005 to 2009.

There are four theoretical perspectives which have been considered in relation to CSR, which are stakeholder theory, legitimacy theory, institutional theory and political economy theory; and in this order, these four theories could be viewed as progressively taking a widening field of resolution from the organization to the broader societal context in which it operates. It will be argued that these four theories are complementary rather than mutually exclusive and that each of them can be useful in analysing and helping to make sense of the phenomenon of CSR in the Chinese banking sector.

This study examines the development and implementation of CSR in the Chinese banking industry through analyzing published CSR reports and carrying out interviews with knowledgeable individuals. In total, 55 CSR reports which were published by 19 banks from 2005 to 2009 inclusive, in addition to a description of relevant guidelines, especially the GRI disclosure index are analyzed. Moreover, 19 interviews were carried out with a range of informed parties during four visits to China between July 2009 and March 2013, in order to obtain information and insights about banks' current CSR understanding and developments, cultural influence, and future CSR strategy. There are some consistencies from the findings of interviews and content analysis; but on other hand some of the findings also show a contradiction between employees' incentives and the perspectives given by the bank's CSR report.

This study makes a contribution by giving indications of typical disclosure in the first 5 years of Chinese banks' CSR reports, and has summarised the guidelines that the banks adopted, and has given an overview of the regulatory framework in which the Chinese banks started to report. The author has managed to undertake interviews, and to obtain insights and fairly frank statements from a range of people. Moreover, the author considers and presents the research findings in the context of a range of theoretical perspectives, and explores the different theoretical perspectives and their insights as they affect China. Finally, this research identifies the difference between some of the internal perspectives of some employees and the public image of banks given by their CSR reports.

Chapter 1

Introduction

1.1 Overview

This thesis reviews the literatures of Corporate Social Responsibility (CSR) with the background of the Chinese context, and then examines the development and implementation of CSR in the Chinese banking industry through analyzing published CSR reports according to the Global Reporting Initiative (GRI) indicator categories, and carrying out interviews with knowledgeable individuals. Dahlsrud argues that corporate social responsibility is nothing new at a conceptual level, that business has always had social, environmental and economic impacts, and that it has always been concerned with regulations and stakeholders including the government. However, due to globalization, the context in which business operates is changing rapidly (Dahlsrud, 2008). CSR is becoming a well-established concept in the financial services industry (Jenkins, 2005, p.525). As the banking system plays an important role in economic development and affects the sustainable development of our society and business (Stubbs and Cocklin, 2007) it is an area worthy of investigation.

An early definition of CSR is given by Bowen (1953, p1) as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” Since the beginning of the 21st century, the CSR concept has seen further evolution from this ‘obligation’ into ‘strategy’, and as a means of ‘competitive advantages’ (Zhao & Gu, 2009). However, Dahlsrud (2008) identifies five dimensions of corporate social responsibility, and argues that if competing definitions have different bases, people will talk about CSR differently and also implement CSR activities under

different understandings. Overall it is clear that CSR as a topic is still in the process of being constructed and defined, and that there is no single generally accepted definition of CSR (Buhmann, 2005).

The contribution of the financial industry to society is very important. Banks are central to the co-ordination of economic activities, both for individuals and organizations and they play a crucial role in financing the economic and developmental activities of society.

This introductory chapter is structured as follows. It gives the concept of CSR first, and then outlines the motivations that the author initially had to engage in the study of CSR. The core research questions addressed in this study are then outlined. Finally, a guide to the structure of the thesis is provided.

1.2 Motivations

Three key motivations initially drove the study to address the research questions in this thesis. First, the author has personal experiences of working at a Chinese commercial bank as a financial advisor in the private banking department. The author was responsible for providing private financial services including financial investment and portfolio management to VIP¹ clients, such as through selling investment funds, financial products and shares. The author saw that all of the colleagues in the department were trying to sell more financial products in order to meet their sales targets and earn higher bonuses without being concerned about the risks and associated responsibilities of the investment products,. There was a contradiction

¹ “VIP” means very important person, and this was the term used in classify the level of the clients according to the size of the savings. For example, the third class VIP is the client who has £50,000; the second class VIP has £100,000 in the saving account; the first class VIP has £200,000 in the account.

between the employees' incentives and the perspectives on responsible selling of financial products which were published in the bank's CSR reports.

Second, the recent financial crisis in 2007 in particular demonstrates the significance of the banking sector and society in general. The Chinese government was quickly recovering the economy after the financial crisis, and then China was not much affected by the financial crisis. However China's exports were hit hard by the sharp reduction in consumer demand in the US and Europe which followed the Western banking crisis (Chance, 2010). As a result, the decline in the exports business led to lower capacity to save and so the financial crisis indirectly influenced the lending ability of the Chinese banks. Therefore, it is urgent for banks to act as responsible corporate citizens and the awareness about CSR in the banking sector is increasing (Chance, 2010).

Thirdly, with a population of 1.4 billion inhabitants and a rapidly developing economy, China is facing significant environmental and social issues and increasing pressure from the use of natural resources, such as energy, land and water. The author comes from Beijing, China and is personally aware of environmental problems such as air pollution due to the impact of smog in particular on people's daily life. While China has achieved great success in economic growth in the past 30 years, some problems have resulted or been encountered, such as environmental damage, energy shortages, the widening gap between the rich and poor, and the demands of social welfare. These problems suggest an increasingly important role for CSR, at least as part of the response to address such issues.

Fourthly, the Chinese government has pushed the pursuit of Green GDP² since 2005 (Zheng and Chen, 2007). The Chinese National People's Congress (NPC), the Chinese People's Political Consultative Conference (CPPCC) and the State Environmental Protection Administration of China (SEPA) together launched a pilot programme in 2005 for a green GDP accounting system in ten provinces and municipalities. Zheng and Chen (2007) claimed that, by the media and supporters, those actions were seen as an 'environmental storm' in order to blow away some long existing obstacles to improve the environment by the media and supporters. In recent years, banks' lending operations have been affected by this pursuit of Green GDP, and they are also affected by the state of the natural environment; these effects are especially visible in banks' green lending portfolios. Although banks may not be seen as directly concerned about the environment, they have an incentive to understand the environmental implications of their lending decisions (Thompson and Cowton, 2004).

In summary, the author's personal experiences of working at a bank, personal awareness of environmental problems, and of increasing pressure from natural resource use and environmental damage in China, have provided the motivations to carry out this study. The resulting research objectives will be discussed in the following section.

1.3 Research Questions and Contributions

Three key specific research questions are stated as follows:

- What is the understanding of the concept of Corporate Social Responsibility?
- Who are the most important stakeholders? Are there any cultural or political

² Green GDP is usually defined as an aggregate accounting index measuring real domestic wealth, which is conventional GDP less the natural resource losses (Zheng and Chen, 2007).

influences on this?

- What are the motivations to implement and disclose CSR activities? How does CSR influence banks' operations management, especially lending decisions?
- How have CSR disclosure practices developed since their inception in the Chinese banking industry?

This thesis explores the situation of CSR development in the Chinese banking sector. The first research objective is investigating the understanding of the concept of Corporate Social Responsibility and perceptions of important stakeholders from the perspectives of Chinese banks in their CSR activities. Some scholars such as Wang and Juslin (2009) have argued that the principles of CSR in China can be legitimately interpreted within traditional Chinese culture, which includes the harmony principles from Confucianism. Therefore, the author also explores perceptions and other evidence of any cultural or political influence on CSR in Chinese banks.

The author attempts to gain insight into what banks in China are actually aiming to achieve in implementing CSR: is it simply window dressing by which banks intend to improve their public image by issuing CSR report. Therefore, the second research objective is examining the motivations of the banks to implement CSR and exploring how CSR activities influence banks' operations management, especially their lending decisions.

Third, the author identified and selected all 19³ banks which issued CSR reports in the earliest years of the disclosing period in China from 2005 to 2009. Only one CSR report was issued by a bank in China in 2005 and 3 reports in 2006, and then in 2007

³ There are many more banks in China, not only 19 banks. But only 19 banks disclosed the CSR reports until 2009.

there were 12 banks which provided corporate social responsibility reports. In 2008 and 2009, all 19 banks in this research issued corporate social responsibility reports to the public. This study analyzed 55 CSR reports according to the Global Reporting Initiative (GRI) indicator categories, which includes a Financial Services Sector Supplement, attempts to gain insights into the development of CSR disclosure practice in the Chinese banking industry by analyzing the total of 55 CSR reports from the 19 disclosing banks.

This research makes a contribution by giving indications of typical disclosure in the first 5 years of Chinese banks' CSR reports, highlighting the common points and giving commentary on examples of disclosures. Second, the author has summarised the guidelines that the banks adopted, and has given an overview of the regulatory framework in which the Chinese banks started to report. Third, the author has managed to undertake interviews, and to obtain insights and fairly frank statements from a range of people in the Chinese political and cultural context. Fourth, the author considers and presents the research findings in the context of a range of theoretical perspectives, and explores the different theoretical perspectives and their insights in the Chinese context. Finally, this research identifies differences between some of the internal perspectives of some employees such as earning more bonuses and the public image of banks given by their CSR reports.

1.4 Structure of the Thesis

This thesis has been divided into eight chapters. This chapter gives an introduction to the research, Chapter 2 reviews the literature related to CSR, including: definitions of CSR; accountability and CSR; and banking and CSR. Thereafter, Chapter 3 provides a

general overview of the Chinese context and CSR, including Chinese history, political and cultural background, and an overview of the development of CSR within the Chinese cultural environment, in order to locate the study and provide a basis from which to interpret the empirical findings.

Chapter 4 examines a number of theoretical frameworks which are considered in this study in relation to CSR. The theories are stakeholder theory, legitimacy theory, institutional theory and political economy theory; and in this order, these four theories could be viewed as progressively taking a widening field of resolution from the organization to the broader societal context in which it operates. It will also be argued that these four theories are complementary rather than mutually exclusive and that each of them can be useful in analyzing, and helping to make sense of, the phenomenon of CSR in the Chinese banking sector.

Chapter 5 describes the techniques, issues and challenges in gathering the research data from banks and other associations. In addition, the methodology and methods in the research are outlined. A description of the methodology is followed by an outline of the disclosure index and semi-structured interview methods.

Chapter 6 gives a background of the Chinese banking sector, explores the relevant guidelines and presents a content analysis in the form of a disclosure index, of all the CSR reports issued by banks in China from 2005 to 2009 inclusive, in addition to a description of relevant guidelines. This chapter explores the background of the Chinese banking sector, the regulatory framework of CSR in China and relevant global CSR guidelines, outlines the research sample of banks' details, an overview of

CSR reports, and disclosure index analysis by GRI indicators. In addition, it describes the ‘Development of CSR Reporting’, and analyses different banks’ reporting behaviour based on the theoretical framework, such as stakeholder and legitimacy theories. Some particular banks’ CSR reporting changes through the reporting years are also discussed along with examples of disclosures based on GRI indicators and discussed with the theoretical perspectives.

Chapter 7 outlines and analyzes the research findings from the semi-structured interviews, which were conducted with 19 interviewees on four visits to China between July 2009 and March 2013. The interview results will be discussed using key themes and factors and according to the theoretical perspectives, in order to provide some insight into recent understandings of corporate social responsibility in China, current CSR practices, and interviewees’ perceptions of the factors which influence CSR practice, including guidelines and other regulatory pressures.

Chapter 8 concludes the thesis by summarizing the research findings, considering the findings in the context of the different main theoretical perspectives, highlighting the contributions, discussing the limitations and providing suggestions for future research.

Chapter 2

Literature Review

2.1 Introduction

It has been increasingly argued that corporations should not focus solely on profit, but also on the welfare of the workforce and other stakeholders, the environment and wider society (MacLagan, 2008; Heal, 2005). Corporate Social Responsibility (CSR) has become a widely discussed topic as it has become increasingly recognized that all organizations, whether incorporated or not, international or domestic, have impacts on their society and environment. CSR may be defined as “a mechanism or strategy whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders” (ACCA, 2007, p.19). This definition was derived from an earlier definition that was issued by the European Commission (EC) which was formulated as follows: “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (EC, 2001). The main distinction between the two definitions was the exclusion of the phrase “on a voluntary basis” by the ACCA version. A more recent definition was issued by the EC in 2011 and it also excludes the reference to voluntary behaviour. The new version defines CSR as: “the responsibility of enterprises for their impacts on society”. While CSR may be commonly understood as corporate behaviour that goes beyond not breaking the law, the ACCA’s exclusion of the word “voluntary”, and the change in the EC’s definition, and could both be seen as meaning that social responsibility is increasingly seen as an expected level of behaviour, and not an optional extra. “Voluntariness” (Dahlsrud, 2008) will be discussed further below, as well the meaning of CSR more generally.

McWilliams and Siegel (2000) claim that CSR is an idea that has attracted world-wide attention and corporations have started to consider whether they should worry about their social impact, and in recent times, employees, customers, community groups, suppliers, governments, and some shareholders have encouraged firms to undertake additional investments in CSR. McWilliams and Siegel (2000) advise that companies, being led by people, have values that guide their interactions with other society members. Some firms have taken action over social and environmental concerns by allocating more resources to CSR. A growing number of shareholders and institutional investors have begun to accept the idea that strategic adoption of CSR could lead to financial benefits in the long run; more and more companies are adopting a form of CSR as a part of their core business principles. On the other hand, there are still many other companies' managers who have refused to accept any notion of responsibilities beyond maximization of shareholders' wealth; they argue that the additional costs of CSR are in conflict with their efforts to maximize profits (McWilliams and Siegel, 2000). Brunseal and Falkenberg (2011) state that the core of the debate about CSR is whether firms engage in CSR activities because they are good citizens or they believe that CSR will lead to increased profitability.

The next section of this chapter will consider in more depth various meanings that have been applied to the term 'CSR' and the wide range of definitions that have been used to encapsulate the concept. The rest of the chapter is then structured into sections covering: meaning and practice of CSR, the purpose of the corporation and stakeholder management, accountability, banking and CSR, globalization, and CSR in Asian countries. Chapter 3 will discuss the Chinese context, and in particular CSR in the banking sector in China which is the focus of this dissertation.

2.2 Meanings and Practice of CSR

Corporate social responsibility as a topic is still in the process of being constructed and defined, and there is no single generally accepted definition of CSR (Buhmann, 2005). Lydenberg (2005) argues that until the late 1970s, CSR was derided as a joke; but by the late 1990s, the idea of CSR had become commonly promoted by many constituents in society including governmental organizations and individual consumers (Lee, 2007). Blowfield and Murray (2008) state that:

“There never has been a straightforward answer to this, and growing interest in the field-whether from companies, governments, the general public, or civil society organizations-has only served to extend the array of definitions” (2008, p.12).

Over half a century ago Bowen (1953, p.1) asked: ‘what exactly are the responsibilities of businesses’; and ‘how can society make institutional changes to promote CSR?’ Bowen defined CSR in terms of a compulsory responsibility of businessmen dependent upon the societal context. His argument refers to businessmen as opposed to business organizations, and stresses a more charitable duty of business (Bowen, 1953, p.2). Subsequently, Carroll in his consideration of CSR stated what he perceived to be the actual ‘social responsibility’ of a business:

“The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time” (Carroll, 1979).

Dahlsrud (2008) and others, such as Lee (2007), Heal (2005) and Engle (2007), have classified definitions of CSR and discussed how and why certain CSR related changes in organizational behaviours have taken place over many years. Friedman (1971) has famously argued that there is no role for CSR other than in the very restricted sense which he advocates: he argues that profit maximization and doing what is best for shareholders is also best for society, and the only social responsibility of business is to

make profits. He argued that:

‘there is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits as long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud’ (Friedman 1970, p.126).

This argument reflects the assumption on which much teaching of accounting, finance and business generally, is based. This is the assumption that maximizing shareholder value is the best way of maximizing social welfare. Sometimes this assumption is made explicit and even treated as an assertion. For example in a leading finance text book, Pike and Neale (2006, p.13) state: “Is the shareholder wealth maximisation objective consistent with concern for social responsibility? In most cases it is”. This assumption is associated especially with the ‘Anglo-American’ approach to business and capitalism (see for example Collison et al 2012). Friedman’s argument, and the assertion of Pike and Neale, can be challenged in various ways. Countries which follow an ‘Anglo-American’ approach to capitalism have been shown (Collison et al, 2012), to have consistently poorer social indicators than other advanced economies which have a more ‘stakeholder’ oriented version of capitalism. It can also be noted that business often does not stay “within the rules of the game” as Friedman puts it, but spends much effort in trying to change the rules for the benefit of business by using lobbying and corporate propaganda (Collison, 2003). Friedman has also argued that using corporate profits for charitable purposes is a form of theft by directors since the profits belong to shareholders. However, it could be argued that proper disclosure of such philanthropy (which is common in China in particular) means the directors are accountable for their actions. It is also important to note that CSR is not just about such philanthropy which is only one kind of CSR activity. It can be argued that how

profits are made is at least as important, if not more important, than how they are used. Heal (2005) sees corporate social responsibility as a programme of actions to reduce externalized costs or to avoid distributional conflicts. He claims that it has evolved in response to market failures, and that it is a solution to problems associated with social costs (Heal, 2005). For example, Heal (2005), in contrast to Friedman's analysis, argues that CSR policies have a natural role to play, a role that benefits shareholders and other stakeholders; he also argues that a CSR programme can be a profitable element of corporate strategy, contributing to risk management and to the maintenance of relationships that are important to long-term profitability (Heal, 2005). Engle (2007) endorses the simple CSR definition by Davies (2003, p302) who suggested CSR is a 'framework for the role of business in society'. Engle argues that this definition includes any society in which the company operates, including the 'global society': as there is growing competition for markets, which includes pressure on global corporations, therefore there is a need to balance the advantages of globalization while meeting the special needs of local communities (Engle, 2007). So far, none of these writers have suggested a universal "operational" definition of CSR; each recommends that changes in the focus of CSR should certainly affect the way it is defined and that corporations should build their CSR strategies around the perspectives of their stakeholders.

Dahlsrud (2008) identifies five dimensions of corporate social responsibility through a content analysis of 37 existing CSR definitions. He argues that uncertainty about the definition of CSR might be a considerable problem. If competing definitions have different bases, people will talk about CSR differently and also implement CSR activities under different understandings. Moreover, he feels it is difficult to develop

an unbiased definition, because there is no methodology to verify such a definition. In his study, he categorized the 37 CSR definitions into five dimensions which comprise the environmental, the social, the economic, the stakeholder and the voluntariness dimensions. First, the environmental dimension refers to the natural environment such as environmental concerns in business operations. However, Dahlsrud identified that the environmental dimension was not included in the early definitions, and he argued that this might have influenced current definitions to not include it either. In Dahlsrud's research the CSR definition from the Ethics in Action Awards (2003), which defined CSR as follows, is a good example of the environmental dimension:

“CSR is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit” (Ethics in Action, 2003, cited in Dahlsrud, 2008, p.7).

The definition above also includes the second dimension from Dahlsrud, the social dimension, which is seen as the relationship between business and society; it concerns businesses contributing to a better society, and considering the full impact of business activities on communities. Dahlsrud provided Pinney's (2001) discussion of the social dimension in which he argues:

“Corporate social responsibility or corporate citizenship can most simply be defined as a set of management practices that ensure the company minimizes the negative impacts of its operations on society while maximizing its positive impacts” (Pinney, 2001, cited in Dahlsrud, 2008, p.9).

Thirdly, Dahlsrud's economic dimension refers to socio-economic or financial aspects; for instance, contributions to economic development or to preserving profitability.

Dahlsrud argues that the environmental social, and economic dimensions are simply different categories of business impacts. He claims that the definition from Marsden (2001) can be categorized into social, environmental and economic dimensions:

“Corporate social responsibility is about the core behavior of companies and the responsibility for their total impact on the societies in which they operate. CSR is not an optional add-on nor is it an act of philanthropy. A socially responsible corporation is one that runs a profitable business that takes account of all the positive and negative environmental, social and economic effects it has on society” (Marsden, 2001, cited in Dahlsrud, 2008, p.8).

Fourthly, the stakeholder dimension has been widely discussed in the CSR literature: it refers to the interactions with, and between, a business’s stakeholders, such as employees, suppliers, customers and communities (Dahlsrud, 2008, p. 6). Drawing on Van Marrevijk (2003), Dahlsrud argues in his paper that a successful CSR strategy, has to be context specific for each individual business, such as considering what the specific CSR issues to be addressed are, and how to engage with its stakeholders. He uses the CSR definition from Woodward-Clyde (1999) as an example of the stakeholder dimension:

“CSR has been defined as a ‘contract’ between society and business wherein a community grants a company a license to operate and in return the matter meets certain obligations and behaves in an acceptable manner”(Woodward-Clyde, 1999, cited in Dahlsrud, 2008, p.9).

The fifth and final dimension in Dahlsrud’s categorization is the voluntariness dimension; it is normally based on ethical values and is beyond legal obligations (Dahlsrud, 2008, p. 4-6). Dahlsrud uses definitions from Kilcullen and Kooistra (1999) and Piacentini et al., (2000) as examples of the voluntariness dimension:

“CSR is the degree of moral obligation that may be ascribed to corporations beyond simple obedience to the laws of the state” (Kilcullen and Kooistra, 1999, p. 158-178 cited in Dahlsrud, 2008, p.9).

“CSR is the voluntary assumption by companies of responsibilities beyond purely economic and legal responsibilities” (Piacentini et al., 2000, p.459 cited in Dahlsrud, 2008, p.9)

Dahlsrud also provides the definition from the Global Corporate Social Responsibility Policies Project (2003) as an illustration with all five dimensions:

“Global corporate social responsibility can be defined as business practices based on ethical values and respect for workers, communities and the environment” (Global Corporate Social Responsibility Policies Project, 2003, cited in Dahlsrud, 2008, p.8).

There are many other categorizations of the CSR concept, for instance, Jamali and Sidani (2008) classify CSR models into two camps, one representing the classical paradigm and the other representing the more progressive or modern paradigm. Jamali and Sidani claim that the classical model has a narrow focus and offers little acceptance for a social role for business, because CSR results in additional costs and reduced competitiveness. Supporters of the classical model, such as Friedman, consider the social responsibility of business firms to be exclusively related to the responsibility of supplying goods and services to consumers (Quazi and O'Brien, 2000) that leads to the maximization of profit within the framework of legal requirements. The focus here is on the economic and legal responsibilities of business (Jamali and Sidani, 2008). The classical view was arguably more common in the 1960s and was reflected in Friedman's argument. On the other hand, the modern paradigm considers businesses to be entrenched within a large society with an associated responsibility to a wider range of stakeholders. Therefore, the responsibility of a business widens beyond making profits to include protecting and improving society's welfare. From this perspective, businesses, like ordinary persons or citizens, are expected to assume responsibility and conform to the principles of

morality and accountability (Jamali and Sidani; 2008. p. 332). This “modern paradigm” clearly extends responsibility beyond operating “within the rules of the game” (Friedman, 1971, p.6).

Although CSR is a concept that has become increasingly recognized by all organizations, CSR differs among countries and industries. Matten and Moon (2008) analyze corporate social responsibility activities and consider why CSR differs among countries by identifying two distinct elements of CSR – the explicit and implicit. By ‘explicit CSR’, Matten and Moon refer to corporate policies that presume responsibility by some societal interests. They claim that explicit CSR normally consists of voluntary programmes and strategies by corporations that combine social and business values and address issues perceived as being part of the social responsibility of the company. Furthermore, explicit CSR may be responsive to stakeholders’ pressure, for example, the pressure from consumers or activist responses to labour conditions in supply chains. Implicit CSR normally consists of values, norms, and rules that result in requirements for corporations to address stakeholder issues. Matten and Moon summarize the differences between explicit and implicit CSR as being that companies practising explicit CSR use the language of CSR in communicating their policies and practices to their stakeholders, whereas those practicing implicit CSR normally do not describe their activities this way. In addition, implicit CSR is not considered as a voluntary and intentional corporate decision, but rather as a reaction to, or reflection of, a corporation’s institutional environment; in contrast explicit CSR is the result of an intentional, voluntary, and often strategic, decision of a corporation. After Matten and Moon investigated corporate social responsibility in the United States and in Europe, they concluded that the global

spread of explicit CSR is a new management idea (Matten and Moon, 2008, p. 415). The concept of CSR does not excel in clarity. It seems to mean different things to different people. From a theoretical perspective, there is no clear consensus on CSR; a consensus about fundamental terms and concepts has not yet been established in this field (Garriage & Mele, 2004). In addition, it is difficult to define CSR categorically because it always has a location and situation specific context. Therefore, the business should arguably focus on understanding how CSR is socially built in a specific context, to recognize the main concerns of local stakeholders and take them into account when business strategies are developed, rather than seeking to define CSR as a universal concept.⁴

Dahlsrud's analysis in the above section, however, shows that the existing definitions are to some extent harmonizing. Corporate social responsibility is nothing new at a conceptual level; business has always had social, environmental and economic impacts, and been concerned with stakeholders including the government and regulations. However, due to globalization, the context in which business operates is changing rapidly. Therefore, the following section will discuss the literatures on how CSR is socially constructed in a specific context; and Dahlsrud (2008) suggests that in each context, CSR management tools are needed in order to develop a successful business strategy (Dahlsrud, 2008, p. 6).

⁴ In his famous work "on liberty", Mill (1859/1991, p.9) described the contingent nature of some fundamental human values and how they should be reflected in practices that are not the subject of legal rules: "all that makes existence valuable to any one, depends on the enforcement of restraints upon the actions of other people. Some rules of conduct, therefore, must be imposed, by law in the first place, and by opinion on many things which are not fit subjects for the operations of law. What these rules should be, is the principal question in human affairs; but if we except a few of the most obvious cases, it is one of those in which least progress has been made in resolving. No two ages, and scarcely any two countries, have decided it alike; and the decision of one age or country is a wonder to another. Yet the people of any given age and country no more suspect any difficulty in it, than if it were a subject on which mankind had always been agreed".

2.3 The Purpose of the Corporation and Stakeholder Management

In recent times, society at large increasingly expects companies to behave as good corporate citizens; therefore, the corporation's responsibilities are not limited to making a profit and creating employment (Pater and Lierop, 2006). So, we might ask, what is the purpose of the corporation? There are two main views on the principal goal of the corporation, one is value maximization and the other, the main challenger to that view, may be best understood through consideration of stakeholder theory. Under stakeholder theory a company's success would be judged by taking account of its contributions to all its stakeholders. Lougee and Wallace (2008) explore the purpose of the corporation by reviewing previous research by Milton Friedman, who in 1962 stated that:

“Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible” (Friedman, 1962, p. 133).

Edward Freeman (1984) develops stakeholder management which is focused on those interests and actors who affect, or are affected by, the corporation. Stakeholder management is becoming a focus of approach to corporate social responsibility when we analyze the purpose of corporations; and there is now a standard (AA1000)⁵ for stakeholder relations which has an explicit CSR character (Lockett et al; 2006).

Blowfield and Murray (2008, p.161) argue that though others have presented shareholder and stakeholder theories as two distinct theories, they acknowledge that this was not the focus of the original work of Freeman in 1984:

⁵ The AA1000 Stakeholder Engagement Standard (AA1000SES) provides a framework to help organisations ensure stakeholder engagement processes are purpose driven, robust and deliver results.

“Freeman is not positing stakeholder theory as an attack on the shareholder-centric theory of the firm that is central to liberal economics. On the contrary, he adopts a very instrumental approach to stakeholder theory, under which companies choose who their stakeholder are, based on the potential of those stakeholders to jeopardize the firm’s survival”.

However, since that time, what has become known as “shareholder theory”, or a balancing of interests of various particular stakeholders, has been proposed as an alternative to a focus on shareholder primacy.

Lougee and Wallace (2008) claim that Friedman’s and Freeman’s work provides two major theories of corporate social responsibility – stockholder and the stakeholder theories. Quotations from Drucker in 1954 and 1994 arguably show a move towards broadening the conception of the purpose of a business as follows:

“If we want to know what business is, we have to start with its purpose. And the purpose must lie outside the business itself. In fact, it must lie in society, since a business enterprise is an organ of society. There is only one valid definition of business purpose: to create a customer. The customer is the foundation of a business and keeps it in existence. He alone gives employment. And it is to supply the customer that society entrusts wealth-producing resources to the business enterprise” (Drucker, 1954, p.73).

However, forty years later Drucker produced another statement of corporate purpose which gives more emphasis to the stakeholder perspective:

“A business that does not show a profit at least equal to its cost of capital is socially irresponsible; it wastes society’s resources. Economic profit performance is the base without which business cannot discharge any other responsibilities, cannot be a good employer, a good citizen, a good neighbor. But economic performance is not the only responsibility of a business. Every organization must assume responsibility for its impact on employees, the environment, customers, and whomever and whatever it touches. That is social responsibility” (Drucker, 1995, p. 97).

According to Lougee and Wallace (2008), there are two conceptions of CSR, 'Moral' and 'Economic'. There are many CSR proponents who support the view that corporations have moral obligations to their stakeholders and that these obligations have an equal priority with the corporation's economic mission of creating profits for its shareholders. By contrast, the economic argument views CSR as a positive NPV investment, which is an essential component of the 'political economy' of running the organization (Lougee and Wallace; 2008, p. 99).

Maclagan (2008) defines stakeholders as including anyone liable to be affected by organizational action. These may be employees, or they may be customers, suppliers, investors, local government agencies, trade unions or society or the community generally (Maclagan, 2008).

Such a view of CSR encourages companies to identify all their important stakeholder groups and to understand the priorities of significant stakeholders and take them into account in order to balance the priorities and goals of each of these groups (Lougee, 2008). Morsing and Schultz (2006) argue that managers need to develop a sense of the organization's internal and external environments, such as trying to figure out what others want and assigning meaning to it. Their argument has increased interest in understanding how managers can manage not just the stakeholders themselves, but also relationships with stakeholders. Stakeholder relationships have been suggested as a source of commercial competitive advantage, and requiring strategic management to ensure the long-term success and survival of a company (Freeman, 1984; Morsing and Schultz, 2006; Perrini and Tencati, 2006).

Through the evaluation and identification of stakeholders and stakeholder

relationships, corporations can attempt to find the best way of taking account of the public and private strategic environments in which they operate, and account for the range of relationships, and responsibilities in their strategy formulation and implementation (Doh and Guay, 2006). In Boele's (2001) view, it is the increasing evidence for the business case for CSR that explains much of the current trend for corporate social responsibility reporting and stakeholder management. Boele et al. (2001) cite Shell as a good organizational example of stakeholder management in that Shell has developed explicit models such as its 'Sustainable Development Management Framework' and its 'Road Map', which are designed to build in a stakeholder dimension to their decision making (Boele et al., 2001).

Wallace (2003) suggests that long-term value creation appears to be a necessary condition for maintaining corporate investment in stakeholder relationships and that investing in stakeholders can add value; in other words, it pays for companies to spend an additional dollar on stakeholder relationships, but only as long as the expected return is at least a 'dollar'⁶. In Wallace's paper, he argues that one way to evaluate a company's commitment to its stakeholders is in terms of its reputation for fair treatment of employees, suppliers, and customers. It can increase financial performance by motivating employees to work harder, improving the supply chain, and increasing sales. On the other hand, stakeholder theory also notes that a focus on shareholder value can lead the corporation to neglect other stakeholders, damaging the firm's reputation and ultimately hurting financial performance and reducing value (Wallace, 2003, p 123).

Though Wallace (2003) argues that value maximization and stakeholder theory may

⁶ Wallace's (2003) argument means the long term expected benefits from taking care of stakeholders must be greater than the costs.

appear at odds, it has been argued that they may not be so different. Jensen (2001) pointed out that value maximization is mainly just a means of keeping score and rewarding executives. He claims that stakeholder theory should not be viewed as a legitimate contender to value maximization because it fails to provide a complete specification of the corporate purpose or objective function. Jensen proposes that the main problem with stakeholder theory, is its failure to give managers a means of balancing the differing demands of the corporation's various stakeholders. Employees may want high compensation and a stress free work environment; customers may want high quality goods and great services at low prices; the government may want higher tax receipts, and so on. Therefore, he argues stakeholder theory, and CSR, leave managers without the criteria necessary to make the trade-offs that are critical to effective management. Jensen however accepts maximization of the long run value of the corporation as the criterion for making the requisite trade-offs among its stakeholders. Moreover, he notes that companies may use the 'Balanced Scorecard' approach which is a performance measurement system. However he claims that the 'Balanced Scorecard' is likely to be counterproductive as a performance evaluation and reward system (Jensen, 2001); though it can help managers understand both the company's strategy and the drivers of value in the business. Jensen presents a relation between value maximization and stakeholder theory in his proposal of a new corporate objective function. Enlightened value maximization⁷ views each of the firm's major stakeholders as a potential driver of long-term value. It is claimed to solve the problems arising from multiple competing objectives and gives managers a clear way to think about and make the tradeoffs among corporate stakeholders (Jensen, 2001). However, Jensen's position could be characterized as no more than a

⁷ Enlightened value maximization uses much of the structure of stakeholder theory but accepts maximization of the long run value of the firm as the criterion for making the requisite tradeoffs among its stakeholders (Jensen, 2001, p.9)

restatement of the contentious assumption mentioned at the start of this chapter that there is no contradiction between maximizing shareholder value and maximizing social welfare.

2.4 Accountability

More recent literature has sought to develop the ideas of organizational legitimacy, social contract, democracy and accountability and the implications for CSR; within this literature, accountability is the basis on which CSR can be justified and structured (Gray et al., 1988). In the 1970s, there were societal pressures to widen accountability; organizations were expected to be accountable to an increasingly wide range of different interest groups. In the 1980s, there were renewed calls for increased accountability, and the term public accountability was much in evidence (Perks, 1993). In recent years, the accountability pressures on organizations have seen a rapid and continual increase (Kolk, 2008). In fact however, the concept of accountability may be as old as civilization; for example, the legal code around 2000BC from Hannurabi, King of Babylonia showed that the King was concerned about the accountability of those who were entrusted with resources belonging to others (Gray and Jenkins, 1993; Bird, 1973).

Stewart (1984 and 1992, p. 4) has made some clarifications to the concept of accountability; he sees accountability as involving giving an account for actions taken and being held to account for those actions. Gray and Jenkins (1993) define accountability as:

“An obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities.” (p. 55).

A similar definition is provided by Gray et al. (1996):

“The duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible.” (p. 38).

The above definitions agree that the origin of accountability is in the notion of the giving and the receiving of ‘an account’; within this notion that there is often an element of ‘duty’ attached to the giving, and some form of privilege in the receiving, of an account (Blowfield and Murray, 2008). Perks (1993) argues that the theoretical framework for accountability must be concerned with such questions as: (1) Who is accountable? (2) To whom? (3) How? (4) For what?

Accountability can be seen as a form of contract, or bond, between the organization and different interested parties, enforced by rule systems including company law, regulations, civil law, internal rules, ethical codes, or professional standards (Monks et al., 2004). Gray and Jenkin (1993, p. 55) define a code of accountability and offer two categories of codes:

“A code of accountability is thus a system of signals, meanings and customs which binds the principal and steward in the establishment, execution and adjudication of their relationship. Different codes effect different patterns of accountability (Gray and Jenkin; 1993, p. 55)

Codes of accountability may be characterized in various ways. We may distinguish internal from external codes. The former are formulated to deal with a specific relationship while external codes have already been established for general categories of relationship and are imported into specific relationships. As a consequence, internal codes are explicit but external codes are almost invariably implicit” (Gray and Jenkin; 1993, p. 55).

The accountability relationship, involving both the account and the holding to account,

can be analyzed as a bond linking the one who accounts and is held to account with the receiver of the account.

Stewart (1984) points out that the bond of accountability constitutes a relationship of power; this framework is not only constructed for the analysis of public accountability, but also for all forms, including managerial and commercial accountability.

It is argued by Gray et al. (1996) that in order to analyze the meanings of accountability, we need to distinguish between legal and non-legal, or moral or natural, rights and responsibilities. They indicate that the law lays down the minimum level of responsibilities and it frequently identifies responsibility for actions, but it infrequently specifies the responsibilities to account for those actions – the accountability (Gray et al., 1996, p. 40). Therefore, Gray et al. (1996) conclude that:

“The legal responsibility for action and the legal responsibility for accountability are not equal - the legal responsibility for action brings a moral responsibility to account which is only partially discharged by the legal responsibility to account” (Gray et al., 1996, p. 40).

Gray et al. (1996, 1993) also argue that the demands of accountability would rarely be satisfied if we were content to leave the broadening of accountability to only voluntary initiatives (Gray et al., 1996; Gray and Jenkins, 1993). This argument gives one of the major reasons why, if reporting on corporate social responsibility is to be a meaningful activity, it should be mandatory; it also highlights why the encouragement of voluntary corporate social responsibility disclosures has little lasting or substantive influence on reporting practices⁸ (Gray et al., 1993; Gray et al., 1996).

⁸ Bebbington et al (2012) “The production of normativity: a comparison of reporting regimes in Spain and the UK” suggest that the legal/voluntary distinction is less clear-cut.

Traditionally, the directors of a company have a responsibility to manage the resources entrusted to them by the shareholders and a responsibility to provide an account of this to management (Gray et al., 1996). At the present, the term ‘accountability’ is used in a wide range of different contexts other than the traditional accounting model, which is concerned with directors’ stewardship of shareholders’ resources; it is in addition often concerned with the company’s responsibility to give a corporate report, and accountability in the public sector (Perks, 1993, p. 37).

Managerial accountability is the accountability of subordinates to ‘superiors’ in a hierarchical organization, and can be found in the public sector as well as outside (Stewart, 1984; Perks, 1993). Commercial accountability is the accountability of a firm to its owners, and can also be found inside the public sector (Stewart, 1984, p. 261). Public accountability can depend on the existence of managerial accountability within the departments of government, or commercial accountability for publicly owned firms (Stewart, 1984; Perks, 1993).

The ACCA (2007) describes disclosure as the dominant philosophy of our modern capitalist system and the essential aspect of corporate accountability. Calls for accountability that goes beyond traditional notions of financial accountability have a long history. The ‘Corporate Report’ (ASSC, 1975) adopted various views of accountability (Perks, 1993). The requirement to report to shareholders is an explicit accountability established within the law itself (Gray et al., 1996). Important economic entities were seen (ASSC, 1975) as having an implicit responsibility to report publicly; no matter whether it was required by law or regulation (Perks, 1993;

Gray et al., 1996). There is a wide variety of different users of corporate reports, such as the equity investor group, loan creditor group, employee group, business contact group, the government and the public (Swift, 2001; Gray and Jenkins, 1993; Perks, 1993). In summary, accountability, thus, is directly linked to an organization's ability to provide transparency of operations (Rasche, 2009).

2.5 Banking and CSR

Finance can be seen as 'grease to the economy' affecting the size and timing of firms' economic operations; moreover, it may affect corporate social responsibility (CSR) and the sustainability of economic development (Scholtens, 2006). Banks act as financial intermediaries providing functions of payment services, asset transformation, risk management and information processing, and monitoring of borrowers with a consequently huge potential impact on society (Coulson et al., 1999; Allen and Santomero, 2001; Yeung, 2011). The recent(2007) financial crisis that affected many Western economies clearly demonstrates the importance of socially responsible governance in the banking sector. The World Business Council for Sustainable Development sees the financial services industry as a potential leader with respect to ecological sustainability, and the industry itself claims that it makes the world a better place to live in (Schmidheiny, 1996). Therefore, the banking system plays an important role in economic development and affects the sustainable development of our society and business (Stubbs and Cocklin, 2007).

Jenkins (2005), in a study on CSR and globalization, reported that the World Bank actively promotes CSR through its Corporate Social Responsibility practice and its training arm, the World Bank Institute; at the same time the United Nations has also taken a CSR initiative with the creation of the Global Compact in 2000.

As discussed above, accountability is a central part of CSR, and the large literature on corporate social disclosure has included studies of the banking industry. Scholtens (2009) analyzed 32 large international banks from North America, the Pacific and Europe; his findings indicate that all of the surveyed banks reported on their CSR policies and performance in 2005, whereas only about one third of surveyed banks did so in 2000. Thus transparency and reporting with respect to social responsibility has increased. He also reported that financial institutions from France and the UK perform best with respect to CSR codes, reporting, and systems. Scholtens (2008) gives four groups of indicators of a bank's social responsibility:

“(1) Codes of ethics, sustainability reporting, and environmental management systems; (2) Environmental management; (3) Responsible financial products; and (4) Social conduct.” (Scholtens, 2008, p.162).

Scholtens (2009) argues that the supply and development of ‘green’ or socially responsible financial products are an indicator of a bank's role in sustainable development; and banks' pertinent environmental issues can be based on awareness of their environmental policy and their environmental products; therefore users can assess the banks' environmental performance and how effectively they help to protect the environment. It would appear that banks in 2005 paid a lot more attention to publishing details of their social responsibilities than in 2000 (Scholtens, 2000, p.172). Academics have asserted that CSR is an increasingly important issue in the international banking industry; they claim that CSR is becoming embedded in banks' business as a business culture and strategy (Scholtens, 2000; Stulz and Williamson, 2003).

Following the subprime crisis in 2008, CSR and banks' reputations have been

receiving increasing attention from academics and the banking industry as well as from policy makers and the wider public. The trust relationship and banks' reputations are extremely important factors when customers make decisions (Yeung, 2011). Banks potentially have a lot of influence on the way in which borrowers' businesses are structured and operated, and therefore on their CSR policies. The following sub-sections will discuss how banks adopt Voluntary Environmental Codes such as the Equator Principles in their lending decisions to explicitly influence borrowers' CSR and control their own financial risk.

2.5.1 CSR and Bank Lending Decisions

Banks add value by offering financial services to savers and investors; and they are not just agents who screen and monitor on behalf of savers but they are also responsible for assessing and managing risk (Scholtens, 2006; Merton, 1995). In 1999, Coulson and Monks claimed that about 15 years previously, financial institutions started to consider the environmental impact of corporate borrowers as part of their investment decisions; and the first European and US commercial banks also began to integrate environmental risks into their credit risk management procedures (Coulson and Monks, 1999; Weber et al., 2008). Coulson and Monks (1999) indicate that banks do not want to be viewed as environmental regulators or become responsible for the environmental liabilities of their borrowers. As traditionally banks' first concern is about the potential risk of repayment default by their borrowers, banks may refuse to lend in risky situations, as they adopt a financial view of environmental risk (Coulson and Monks, 1999). US bank surveys in 1994 concluded that banks had changed their lending policies in order to avoid environmental lending liability and that commercial loan transactions were undergoing environmental assessment (Coulson and Monks, 1999). As a result some banks rejected loan applications and discontinued financing

‘dirty’ industrial sectors (Coulson and Monks, 1999, p. 1). The results from a survey by Salmon Brothers in 1995 provide evidence that banks have adopted environmental management practices, particularly environmental loan assessment procedures (Weber et al., 2008). In 1998, the World Bank and the International Finance Corporation (IFC) published detailed guidelines for integrating environmental assessment into credit risk assessment (IFC, 1998).

In the context of environmental risks, Dasgupta et al (2002) and Coulson and Monks (1991) observe that within the last three decades, banks have learned from mistakes, and most of them consider environmental risk as part of the credit appraisal process⁹. Mazzocco (1991) suggests that environmental regulations affect lenders in three broad areas: lender liability, borrower liability and constraints on borrowers’ actions. The number of lenders adopting voluntary environmental codes, such as the Equator Principles or the United Nations Environment Program-Finance Initiative (UNEP-FI) has been increasing (Kulkarni, 2009).

2.5.2 Equator Principles

For many years, banks working in the project finance sector had been seeking ways to develop a common and coherent set of environmental and social policies and guidelines that could be applied globally (Amalric, 2005). When corporate social responsibility becomes a significant aspect of an enterprise, it may necessary to implement respective policies and comply with the important environmental and social benchmarks, such as the Equator Principles. In October 2002, a small number of banks and the World Bank Group International Finance Corporation (IFC)

⁹ Their observations may have been expressed differently if they had been writing later. But their main point about bank’s assessment of environmental risk is arguably still valid.

convened in London, to discuss these issues and decide jointly to try and develop a banking industry framework for addressing environmental and social risks on project financing (Scholtens and Dam, 2006). As a result, the first set of Equator Principles was drafted by these banks on June 4, 2003 (Scholtens and Dam, 2006). The Equator Principles recognize the indirect impact of banks on environment and society through their lending activities (Macve and Chen, 2009). Currently, many banks have decided to comply with the Equator Principles which stipulate why and how financial institutions should consider environmental and social issues in their project finance operations (Wright et al., 2006; Scholtens, 2006). By accepting the Equator Principles, banks commit to provide funds only for projects for which the borrowers have met specified criteria for environmental and social standards (Esty, 2004; Scholtens, 2006, p. 27). The principles classify a project as high, medium, or low risk in the environmental and social categories. Medium and high-risk projects require an environmental impact assessment (EIA) to be produced. The EIA includes consideration of the use of renewable raw materials, job safety, the protection of endangered species and efficient energy provision; in addition, the borrowers must prove that a project complies with national laws and the environmental provisions of the IFC (International Finance Corporation)¹⁰ and the World Bank (Scholtens, 2006, p.28). The principles are intended to provide both a common baseline and framework for the implementation of banks' individual, internal environmental and social procedures, and standards for banks' project financing activities (Scholtens, 2006, p. 30).

Scholtens (2006) asserts that adoption of, and adherence to, the Equator Principles offers significant benefits to banks, customers and other stakeholders. He also

¹⁰ IFC (International Finance Corporation), a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries.

indicates that the principles can strengthen banks' ability to document and manage environmental and social risk exposures. The influence of the Equator Principles has been profound (Wright et al., 2006). Since 2003, the Equator Principles have received much coverage in the financial press. The principles have been hailed by many 'Equator banks' as a benchmark for responsible investment practices; and 'Equator banks' are, it has been argued, gaining reputational benefits irrespective of their actual practices (Wright et al., 2006, p. 89 and Scholtens, 2006). A survey by Wright et al. (2006) indicated that by 2004, thirty-two banks had adopted the Equator Principles; 53 percent were located in Europe, 24 percent in North America, and there were none in South Asia or Southeast Asia; the remaining 23 percent were in Brazil, Japan, Australia and South Africa (Wright, 2006, p. 101)¹¹. Nonetheless, there are a number of leading project finance banks which still continue to opt out of the Equator Principles. It has been argued that the principles are too restricted in scope: NGOs also want the principles to apply to all types of financing, not just large projects (Watchman, 2005).

Regarding the environmental benefit from the Equator Principles, Macve and Chen (2009, p.1) suggested that without more detailed project-level disclosure and a standardized performance evaluation system, it is difficult to measure the extent to which the Equator Principles have had a positive effect on the environment.

2.6 Globalization

The rest of this chapter will first consider how globalization influences corporate social responsibility, and then discuss CSR development in Asian Countries.

¹¹ There is now a Chinese bank which is Industrial Bank that has adopted Equator Principles from November 2008.

CSR has particular relevance in the global economy: recent discussion around CSR appears to be influenced by the advent of globalization and international trade, these discussions have increased business complexity and created new demands for improved transparency and corporate citizenship (Jmali et al., 2008). Globalization may be described as ‘the intensification of world-wide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa’ (Giddens, 1990, p.64). Globalization happens in various areas, including politics, culture, economics and communications. Globalization, increased competition, and changing industrial and technological structures are sources of commotion, change and uncertainty.

Markets are being opened up to global competition through trade agreements, information technology and new transportation systems. The globalization of production and marketing may lead to reduced costs and increased skills in both manufacturing and knowledge-based organizations (Boele et al; 2001). Globalization has increased the pressure on companies to act responsibly, and CSR is about making the benefits of globalization accessible to more people (Blowfield and Murray, 2008). Due to the influence of global economic markets, many corporations also have to reach global production standards, meet local social requirements, and the requirements from global buyers of their supply chains (Luken and Stares, 2005). Tschopp claims that corporations around the world have started to realize that their investors, buyers or supply chains are not solely interested in financial performance. ‘Greed and exploitation have been matched with compassion and sustainability’ (Tschopp, 2005, p.55). Therefore, this is where the need for corporate social

responsibility comes in, and with the advent of globalization managers have been exposed to the notion of CSR and are being pressured to adopt CSR initiatives through influences from different contexts such as international initiatives, competitors, supply chain, or partners (Jamali and Sidani, 2008).

Frynas (2005) argued that the rise of CSR can be traced directly back to globalization and a concomitant expectation that firms would fill gaps left behind by global governance failure; as a result, firms have been pressurized to ‘do something’ about the environment, community development and social responsibilities (Frynas, 2005). Albareda et al. (2008) also offer a global focus on CSR; they analyzed the link between CSR public policies and some social and environmental challenges caused by the transnationalization of business activities in a globalized economic context. They point out that CSR can best be understood as a consequence of global business activities, due to which business will have to take greater account of its impacts on society. There is now a globalized context, they argue, where the state has a dependent role versus the company’s dominant role. In the traditional context, governments had political power and were the only authorities that could legislate. Albareda et al. claim that globalization has changed all this, and now economic relationships go beyond national boundaries and the organizations that operate in civil society. However, many business managers do not know how to respond to the rising social and environmental requirements and may be afraid of losing their competitive edge in the global market. They are also concerned that if they do not meet these requirements in a cost effective way, they will not be able to enter the new global market in foreign countries and may lose the contracts they already have (Luken and Stares, 2005). Therefore, it is necessary for business managers to understand the corporate social responsibility

concept before they start to adopt it; however, understandings of corporate social responsibility in the globe vary and, as discussed above, are widely contested (Fenwick and Bierema, 2008).

2.7 CSR in Asian Countries

There has been a recent increase in research on CSR in Asia with a particular focus on identifying the nature and significance of the differences between Asian and Western contexts. Significant issues include poverty and wealth distribution, labour wage rates and standards, educational disparities, and the role of civil society organizations. Moreover, much of the research on CSR in Asia to date has focused on the issue of the environment (Baughn et al., 2007). Welford's (2005) study found that Asian firms appeared to be doing less in this regard than European firms. There were stark contrasts between European and Asian firms with regard to various policies, including fair wages, freedom of association and equal opportunities for employees. Moreover, Chapple and Moon (2007) argued that there are lower levels of CSR in Asian companies than in their western counterparts, with the exception of Japan; they also stated that CSR was very much tied to localized issues, cultural traditions at a country level, and historical events (Chapple and Moon, 2007). Baughn et al. (2007) examined corporate social responsibility in 15 Asian countries; they claimed that Asian countries differ substantially in their levels of economic development, political/legal systems and cultural norms, and they found that firms in different countries differed in the extent to which they reported CSR activities on their websites; in addition they noted differences in the managerial practices and stakeholder issues that were stressed. In this section the literature regarding some specific Asian countries will be reviewed but CSR in the Chinese context will be considered in the following chapter.

Malaysia is an export-oriented country, therefore, it is crucial for Malaysian organizations to embrace and develop CSR practices and capabilities. There are several elements of CSR that are already incorporated in Malaysian legislation, for example, the Environment Quality Act (1974); and there are a growing number of CSR initiatives and non-governmental organizations addressing CSR issues. The Malaysian government has been focusing on improving CSR, for instance, Bursa Malaysia, the Malaysian stock exchange, launched a CSR framework for public listed companies in late 2006 and the government introduced a 7% ceiling tax rebate for all CSR efforts from 2006 (Lu et al., 2009). Chapple and Moon (2007) summarize a CSR report in Malaysia from Teoh and Thong (1984) which showed that in all the Malaysian companies included in the study there was a general emphasis on human resources and products and services as a major area of corporate involvement and that there was less focus on community or environment. In addition companies with foreign ownership seemed more inclined to accept such responsibilities. Abdul and Ibrahim (2002) found that in Malaysia 60% of surveyed executives believed that involvement of a business in community-focused CSR improved long run profitability, and 65% agreed that CSR provided a favourable public image. They also found that the most influential factor determining attitudes towards social responsibilities was family upbringing, and that there were some other influential factors such as traditional beliefs, customs and common practice in industry.

Lu and Castka (2009) claim that the new challenge for Malaysia now is to encompass the core issues of Corporate Social Responsibility, and that CSR is still considered to

be in its infancy. Ahmad and Rahim's (2003) study concluded that Malaysian business managers do not fully comprehend the importance of CSR; that Malaysian organizations are only practicing certain aspects of CSR, especially philanthropy and public relations elements. Apart from using CSR as a public relations tool, most organizations in Malaysia are 'confused' and have mistaken CSR as solely philanthropy; they merely donate money and claim to be CSR-oriented. They found that the general public in Malaysia seems to think that CSR is just another fancy management concept used by Western countries which might be not suitable for Malaysia. Lu and Castka (2009) believe that Malaysia should have its own standard relevant to the Malaysian environment and culture, so that it will be more readily acceptable to the public.

A corporation's level of CSR activity is influenced by national, individual and organizational factors (Aguilera et al., 2005). Singapore's small size and dense population has augmented concerns about the environmental elements of CSR (Kimber and Lipton, 2005). Ramasamy and Hung (2004) note that, while CSR has taken its stronghold in developed countries, awareness of CSR appeared to emerge rather slowly in Singapore. Ali (2009) analysed the challenges and opportunities faced by SMEs in Singapore as they started to pursue a corporate social responsibility agenda; he claimed that SMEs are an important part of Singapore's economy and increasingly SMEs are showing greater commitment to environmental, social and community responsibility. He noted that the growing importance of trust and reputation in a closely networked economy appeared to be a key driver responsible for the take up of CSR.

Other Corporate Social Responsibility research in Asian countries has been undertaken. For example, Moon and Fukukawa (2004) carried out CSR research in Japan, and found that Japanese companies are noteworthy for their reporting of CSR performance; they also noted that Japanese companies reflected a key aspect of the national system in adopting the outline for environmental reporting as suggested by the responsible government ministry. Moreover, Collison and Kozuma (2002) concluded that Japanese business had traditionally considered a wider range of stakeholders than has business in western countries and that this was in keeping with the spirit of the newer forms of corporate social reporting (Collison and Kozuma, 2002). Welford's (2005) survey found that 62% of companies in Japan and 50% of the surveyed firms in Korea had policies on CSR and sustainable development reporting. This was substantially higher than the average for the other Asian countries, such as Malaysia, Singapore, Hong Kong and Thailand. Japan had the highest number of companies using Global Reporting Initiative (GRI) reporting in 2006. While Japanese companies focus their CSR disclosures more on environmental programs and policies rather than social issues, the perceived importance of CSR among firms in the country is quite high (Baughn et al., 2007). In contrast to the CSR activities in Japanese corporations, the economic crisis in Indonesia not only damaged national economic performance but also the social and legal factors crucial to CSR. Corporate social responsibility was reduced to an abstract ideal (Chapple and Moon, 2007, p. 185).

Following this introduction to meaning and practice of CSR, the purpose of the corporation and stakeholder management, accountability, banking and CSR, banks lending decisions, globalization, and CSR in Asian countries, the following chapter will discuss the Chinese context, including Chinese history, political and cultural

backgrounds, economic growth, the harmonious society and CSR in China, and green lending policies in China.

Chapter 3

CSR in the Chinese Context

3.1 Introduction

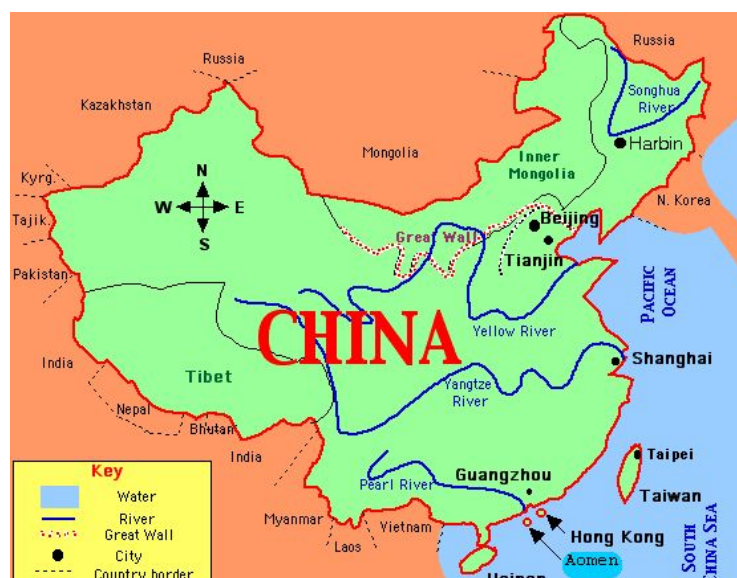
Chapter 3 will examine the literature on the historical background of Chinese culture and economic growth, the policy on “Harmonious Society”, the most recent political direction from president Xi, Chinese CSR development and green lending in China.

3.2 China and Chinese CSR

3.2.1 Chinese History, Political and Cultural Background

China is a country with a long history stretching back almost 5000 years from the present century; and it is currently experiencing rapid growth in terms of the economy, industry and population (Byrne, 2005, p.2). According to Byrne (2005) Chinese society has progressed through five major stages- Primitive Society, Slave Society, Feudal Society, Semi-feudal and Semi-colonial Society, and Socialist Society.

Figure 3- 1 Map of China (Source: Adapted from Geology World, 2013)



China is the second largest country in the world by land area, and is located in Eastern

Asia. The major rivers in China (see Figure 3-1) include the Yellow River, Yangtze River, and Xi; and the Great Wall shown by a dotted line was generally believed to have been built by the first Emperor of China, Qin Shi Huang, along an east to west line across the historical northern borders of China in order to protect the Chinese Empire.

According to data from the National Bureau of Statistics of the People's Republic of China, China has four Municipalities under the Central Government comprising Beijing, Shanghai, Tianjin, and Chongqing, five Autonomous Regions including Guangxi, Tibet, Ningxia, Inner Mongolia and Xinjiang, two Special Administrative Regions including Hong Kong and Macau, and twenty-three provinces. With an area of 9.6 million square kilometres, China also officially consists of eight regions, East China area, Southern China area, Central China area, North China area, Northwest China area, Southwest China area, Northeast China area and the Hong Kong, Macau and Taiwan area (GOV, 2014).

Since the founding of the People's Republic of China on October 1st, 1949 with its national capital at Beijing, which is the nation's political, cultural and educational centre; China has become a socialist society, and as Table 3.1 shows, Mao was the first president who famously declared that 'the Chinese people have stood up'¹². The people were defined as a merger of four social classes at that time: the workers, the farmers, the petit bourgeoisie, and the national-capitalists (Gang, 2008). Mao stated that China is against imperialism, feudalism, and bureaucracy, in the struggle for independence, democracy, peace and unity. However, he laid heavy emphasis on class

¹² This phrase reflects the history of China in the 19th and 20th centuries when foreign powers dominated and colonized parts of China.

struggle and theoretical work, and he began the Cultural Revolution in May 1966 in order to more strongly impose his socialist convictions and to relieve China of ‘old elements’. The Revolution was continued until the death of Mao in 1976, when the Chinese leadership was passed to Deng Xiaoping and he started China on the road to “Economic Reforms and Openness” from 1978 (Huang, 2008; Hutton, 2007). Under Deng’s direction of the reform of economic life, it was possible for entrepreneurs to become rich rapidly; and through his programmes, the Chinese domestic economy began to improve (Gao, 2008). “The Economic Reforms”¹³ movement rapidly developed the consumer and export sectors of the economy. Since their reforms China has emerged as a major trading nation and foreign trade has begun to have a greater influence on the domestic economy than at any other time in China’s history. Under the third generation of the leadership of Jiang Zemin from 1989, who introduced further macroeconomic reforms, Deng’s vision for ‘Socialism with Chinese Characteristics’ was furthered (Huang, 2008).

Although the economy developed rapidly under the macroeconomic reforms, problems such as the economic gap between the rich and the poor, environmental pollution, social welfare, and human rights issues became threats to economic growth and sustainable development for the Chinese society and government (Gao, 2008; Huang, 2008). In the 21st Century, a new generation of leader, Hu Jintao, who was described as having a low-key and reserved leadership style, gave a new direction on founding a “Harmonious Society” and contributing to “Peaceful Development” internationally. Hu and his premier, Wen Jiabao emphasised the need for a “Harmonious Society” in order to find the solutions to deal with China’s various

¹³ ‘Economic Reforms’ were started in December 1978 by pragmatists within the Communist Party of China (CPC) led by Deng Xiaoping and are ongoing as of the early 21st century. The goal of Chinese economic reform was to generate sufficient surplus value to finance the modernization of the mainland Chinese economy (Huang, 2008).

economic, environmental and social problems in a country of over 1.3 billion people (Hutton, 2007; Gang, 2008; Holz, 2005).

At the 18th CPC National Congress on March 2013, President Hu stepped down as the President and Chairman of the Central Military Commission. President Xi was elected as the new leader of the Party and president of the People’s Republic of China. Xi’s political principle ‘Combat corruption and build a clean government’ has been profoundly influencing the political and economic environment of China. Under Xi’s principle that the intensive implementation of combating corruption is intended to be protective of the interests of the state, the general public and citizens. Also business operations should gain benefit from fighting corruption resulting in a better economic system (China News, 2014).

Table 3- 1 Timelines of China leadership and Social Objectives

Supreme Leader	Period	Social Objective
Mao	1949-76	Class Struggle primacy and central planning
Deng	1976-89	Economic development primacy and reforms
Jiang	1989-2003	Three Represents Theory ¹⁴ (called an "important thought")
Hu	2003-2013	Harmonious socialist society
Xi	2013-date	Combat corruption and build a clean government

Chinese traditional values, culture and society are largely shaped by Confucianism, an

¹⁴The possible interpretation of the ‘Three Represents’: Economic Production; Cultural Development; and Political Consensus (Xinhua News, 2001).

ethical and philosophical system involving a complex guide to human relationships, attributed to the Sage Confucius Kongzi who lived during the Chou Dynasty (Gao, 2008; Lan, 2009). Confucianism has been a leading and continuing influence on cultural values in China until today; it affects Chinese people's perception of what is important and what is not; and it has spread to Korea, Taiwan and Vietnam (Warner and Zhu, 2002). "What you do not wish for yourself, do not do to others" is the golden rule of Confucianism which can be applied for companies to run their business effectively, not only for individuals (Gao, 2008). However, there are some additional rules from Confucianism which are arguably also compatible with recent social developments. For example, Kortelainen (2008) indicates that lack of individual empowerment in Chinese organizations is influenced by Confucius who believed that "if everyone lived up to one's duties according to one's position in society political order would prevail". Kortelainen (2008) also suggests that Chinese organizations need to establish an empowering culture for all employees in order to achieve continuous improvement and success (Kortelainen, 2008, p. 431).

Traditional Chinese culture which is heavily influenced by Confucianism can be categorized on three basic values: high power distance¹⁵ and intra-group harmony; collectivism¹⁶; and the rejection of open-conflict in personal relationships¹⁷ (Lan, 2009, p.61). Although Confucianism has been a dominant influence on Chinese people, it has been challenged by a range of factors: the economic strategy of shifting from central planning to a market economy; the long history of war; the Cultural Revolution during 1966-1976; the development of social objectives; the introduction

¹⁵Respect for and compliance with authority figures and acceptance of differences in power among people as normal

¹⁶Focus on the group's welfare as opposed to that of the individual

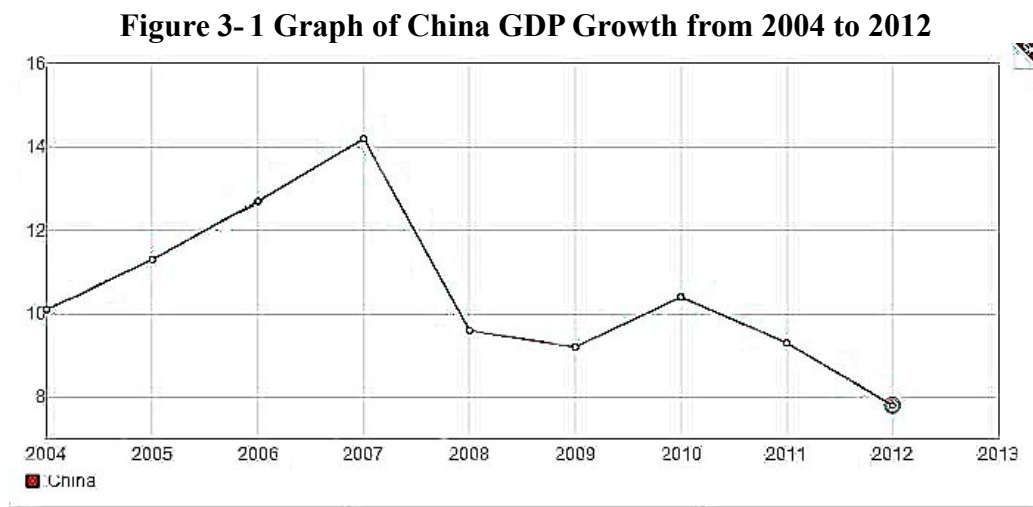
¹⁷A concern for 'saving face' and intra group consistency

of Western culture, and the adoption of reform and “openness” in 1978 (Gao, 2008, p.25). The most widely used development concept in China now is that of modernization; it brings Western values, customs, and ideas to China. It has spread capitalist values and resulted in changes in people, services and ideas (Byrne, 2005, p.3).

As a result, the impact of Confucianism has been reducing in China and there are now three major rival value orientations in Chinese Society: (1) Chinese traditional values, which are represented by Confucian teachings; (2) Western values, represented by individualism and materialism which are having a great influence on Chinese people’s everyday life, especially for the young generation; (3) A combination of Chinese traditional values and some imported Western values, including communism and collectivism (Lan, 2009, p.62).

3.2.2 Chinese Economic Growth and CSR Development

Within the last thirty years, China has experienced rapid economic growth since the beginning of the economic reforms in 1978; and today China is the world’s fastest developing market and leading manufacturing location. (Gang, 2008 & Kortelainen, 2008). Murray (1998) describes China as the next superpower, and indicates China is the first great economy that achieved economic development under a pattern of ‘globalized expansion’. The publication Global Economics Research from Trading Economics (2009) shows that since China’s free market reforms in 1978, China’s GDP has grown by an average of 9.9 percent a year; and by 2007 China was the second largest economy in the world with an annual GDP growth of 12.6% and a GDP of \$1.8trillion when measured on a purchasing power parity basis (Trading Economics, 2009).



Source: Adapted from The World Bank (2013)

Figure 3- 1 shown above, shows the annual GDP growth rate of China from 2004 to 2013. It shows the trend of GDP growth fluctuates but keeps at a high level ranging from 7.8% in 2012, the lowest rate, to 14.2% in 2007, the peak. It can be seen from Figure 3- 1 that from 2004 to 2007, China went through a rapid economic development period with a high GDP growth rate of over 10% per year, reaching the peak of 14.2% in 2007. However, starting from 2008, the annual GDP growth of China decreases from 14.2% to 9.2% during the time period from 2008 to 2012. Suffering from the Financial Crisis, the economic growth of China was negatively affected by the loss of investment in western stock markets and the decline of international trade (Schimidt, 2009).

Slightly rising during the time from 2009 to 2010, GDP growth remains relatively high according to a report of the China Business Review (2010). The Chinese government has greatly boosted fixed-asset investment lending, accounting for about 70% of GDP growth in 2009, to stimulate the recovery of the economy (Roach, 2010).

Economic growth slowed down after the financial crisis, from 10.4% in 2010 to 7.8% in 2012. The Chinese government has realized that the pattern of economic growth, which used to be dependent on industrial production and massive investment (Kuijs and Wang, 2005), has to move to sustainability. Rapid economic growth also depends on the high energy consumption of resources, which is the main reason for environmental problems, in the perspective of the environment and resource economics (Liu, 2012). China is facing significant environmental and social issues and increasing pressure from the use of natural resources, such as energy, land and water. While China has achieved great success in economic growth in the past 30 years, some problems have resulted or been encountered, such as environmental damage, energy shortages, the gap between the rich and poor, and the demands of social welfare.

Holz (2005) indicates that China's economic development in the reform period fits well with the broad development patterns of structural change, production technologies, and factor price equalization. He also foresees that China has twenty to forty more years of gains in economic growth to reap, and that the growth is inevitable. However, in contrast to Holz's (2005) view, many researchers state that China's rapid economic rise is not guaranteed, since like other developing countries, China is facing all kind of problems and unbalanced situations that will challenge sustainable economic and social sustainable development. Such problems range from bad loans in the banking system to an under-funded pension insurance scheme and the lack of a rural health care system (Holz, 2005; Gang, 2008). In addition, China's GDP growth was accompanied by significant environmental poverty and natural resource depletion (Holz, 2005). Gang (2008) and Hao (2006) suggest that the Chinese

Government may no longer wish to trade off China's environment and resources for GDP growth; therefore, growth of "green GDP" should become one of the central concerns of China's leadership.

In order to solve some of the problems which come with rapid economic growth, the Chinese Government is trying to encourage corporate social responsibility among corporations, and a key role for China in CSR globally (Kortelainen, 2008). This represents a greater engagement with CSR since the ideas of corporate social responsibility were introduced into China from Western Countries from the mid 1990s to the beginning of the 21st century, during which time CSR requirements were mainly applied through the requirements of the international supply chain (Ramsamy and Yeung, 2009; Gao, 2009). From 1949 to the mid-1990s, China implemented a centrally planned economic system; the Chinese government controlled all major sectors of the economy and decided what should be produced (Gao, 2009). Therefore, state-owned enterprises (SOE) acted as a public sector, and private enterprise was relatively underdeveloped (Ramsamy and Yeung, 2009). After the economic system reform in 1993, the Chinese Government was trying to build a socialist market oriented economy, and during that time many SOEs were privatized and grew rapidly in the climate of reform (Laurenceson and Chai, 2001; Gao, 2009). The central aim of economic reform from 1978 was faster economic development, but it neglected the social responsibilities of enterprises (Gao, 2009, p.26). The second stage of CSR development in China was from the early 21st century, and during those years, the CSR concept was introduced to society, drawing wide attention and debate (Kortelainen, 2008; Gao, 2009). The most recent stage of CSR development began in 2004, representing a stage of active policies to build a harmonious society involving

Chinese government departments, as well as industries and enterprises (Kortelainen, 2008; Gao, 2009).

Zu and Song (2009) carried out a survey of 100 Chinese industrial enterprises between 2003 and 2004, and concluded that the introduction of CSR to China is driven by both external and internal factors. Externally, after China joined the WTO in 2001, many multinational corporations expanded their business in China, and they brought the requirements for good quality products and services. Therefore, CSR was taken seriously in China due to the perception of some socially irresponsible business behavior and pressure from multinational corporations (Zu and Song, 2009, p.105). Within China, corporate executives and managers are facing demands from multiple stakeholder groups such as NGOs, labour unions, news media, customers, employees, suppliers, and government, to allocate resources to CSR (Zu and Song, 2009, p.106). As a result, Chinese corporate managers have started to assume their corporation's social responsibilities, for instance, philanthropic donation, pollution control, energy saving and having regard for employees' welfare (Gao, 2009, p.26). On the other hand, Zu et al (2009) and Gao (2009) indicate that CSR in China is still in its early phase. Although Chinese corporate managers are increasingly aware of CSR, the overriding concern in Chinese enterprises is still a firm's economic performance and managers' interpretations of CSR activities can still be seen strongly in terms of economic incentives. Gao (2008) states that the Chinese Government is directing the most socially responsible behaviours of firms in China. Therefore, the government acts as a very important stakeholder in China and companies pay much attention to the interest of the government (Gao, 2008, p. 34).

3.2.3 The Harmonious Society and Chinese CSR

In 2005, Chinese President Hu Jintao put forth the concept of the "Harmonious

Society” and instituted the policy as a guiding principle for marking a new phase in China’s approach towards development (Gang, 2008; See, 2008). Hu Jintao defined a “harmonious society” as a society “which gives full play to modern ideas like democracy, the rule of law, fairness, justice, vitality, stability, orderliness and harmonious co-existence between humankind and nature” (See, 2008, p.2). Hu states that the objective of social harmony is deeply rooted in traditional Chinese culture, and in European socialism, Marxism-Leninism, and Chinese Communism; he also stated that Confucius’ philosophical system of “harmony is prized above all” to explain the Chinese “harmonious society” (Keidel, 2006). Delury (2008) argues that the definition of “harmony” in China is heavily influenced by Confucian philosophy, and many of the terms used in the “Harmonious Society” policy are different from how they are typically understood in Western countries, such as promoting “Democracy”.

Hu and his premier, Wen, tried to move China away from a policy of achieving economic growth at all costs and towards a more balanced view which considers social inequality and environmental damage (See, 2009, p. 4). In October 2006, during the 6th Plenum of the 16th Central Committee of the Communist Party of China (CCP), the CCP published a resolution on the “Building of a Harmonious Socialist Society” which gave details of the concept of the harmonious society, and affirmed the concept as official policy of the Chinese Communist Party. The 6th Plenum also set a deadline for a “Harmonious Society”; it is to be achieved by 2020 (Delury, 2008). It has been argued that the use of the word “harmony” is not empty rhetoric but is important in suggesting a shift in policy (Woo, 2006; Delury, 2008). Woo (2006) offers reasons for why the “Harmonious Society” policy was introduced: it may be

because social and environmental problems have resulted in social unrest and threatens the CCP's grip on power. He argues that the CCP realized that it could lose political legitimacy if the government failed to solve these problems (see also Hutton, 2007). In contrast to Woo's argument, Keidel (2006) claims that:

" ... It is important to emphasize that China's social unrest is not made up of street demonstrations demanding a new government or western-style democracy ... China's social unrest should be understood as the unavoidable side effects -- worsened by local corruption -- of successful market reforms and expanded economic and social choice ... Managing this unrest humanely requires accelerated reform of legal and social institutions with special attention to corruption"(Keidel, 2006).

Researchers have argued that it is difficult to give clear reasons for why the “Harmonious Society” policy was introduced. But “harmony” is part of Chinese traditional thinking and values, the “Harmonious Society” concept has been widely accepted in China and the policy is evolving in practice (See, 2009, p. 3; Woo, 2006; Delury, 2008).

See (2009) believes that there is a potential compatibility between CSR and the “Harmonious Society”; and that the “Harmonious Society” will lead to increasing levels of CSR adoption in China. He claims that the Harmonious Society has received support from those studying CSR in China because it is seen to share common objectives with CSR. He also states that the Chinese government has clear incentives to encourage firms to pursue CSR; and that the “Harmonious Society” policy will raise awareness of CSR among Chinese companies and lead them to adopt such practices (See, 2009. p. 1). In addition, it has been argued by Bai and Xu (2005) that CSR is likely to develop first among State Owned Enterprises (SOEs) in China.

Early in 2008, the State – owned Assets Supervision and Administration Commission

(SASAC) issued CSR guidelines requiring all SOEs to understand the importance of CSR (See, 2009; Bai et al., 2005). The guideline encourages SOEs to consider CSR in their reform processes, and places CSR within the context of the “Harmonious Society” (See, 2009, p. 17). There are some Chinese corporations which have already started to consider corporate social responsibility since the “Harmonious Society” policy was introduced. For example, China Mobile, the world’s biggest telecommunications firm, released its first CSR report in 2007 emphasizing the company’s “triple-sided responsibilities” that included economic responsibility, social responsibility and environmental responsibility (Birkin et al., 2007; See, 2009).

SOEs include the big four Chinese state-owned banks (SBs), which dominate the Chinese banking system and which have already published CSR reports. The Industrial and Commercial Bank of China and the China Construction Bank started to publish CSR reports from 2007. A number of CSR guidelines for the financial sector have been formulated by Chinese regulatory institutions since 2006. In chronological order, the Shenzhen Stock Exchange (SSE), the China Banking Regulatory Commission (CBRC), Shanghai Stock Exchange (Shanghai Exchange), and the China Banking Association (CBA) have all formulated guidelines that emphasize the importance of corporate social responsibility and reporting issues. Each of these institutions recommends, as part of compliance with their guidelines, the production of reports annually (Levine, 2008). Moreover, the Global Reporting Initiative (GRI) is global and has international acceptance as CSR guidelines in the financial sector (Farneti and Guthrie, 2009). Chapter 6 will further discuss and elaborate the provisions of the international CSR guidelines from the GRI and the CSR guidelines in China before analyzing the Chinese banks’ CSR reports from 2005 to 2009.

3.3 The Chinese Green Lending Policy

The Chinese government has been pushing the development of a Green-credit Policy by publishing a series of laws and regulations to regulate lending decisions in financial sectors (Aizawa and Yang, 2010). According to Lin (2010), in July 2007 the Green-credit Policy, which was first mentioned in the *Suggestion on Implementation on Environmental Protection Policy and Prevention of Credit Risk*, was initiated jointly by The State Environmental Protection Administration¹⁸ (SEPA), the People's Bank of China, and the China Banking Regulatory Commission (CBRC). It is intended to lead the Chinese banks towards considering enterprises' environmental performance while making credit assessments and lending decisions. Corporates should provide sufficient information of environmental violations, approval records and clean production certificates to banks which should assess the enterprise's qualifications when considering borrowing applications.

In 2008, the Ministry of Environmental Protection (MEP) issued the *Notice of Information Communication and Share of Environmental Protection* jointly with the CBRC, in order to provide an official reference for the banking industry in credit granting, environmental requirements around approving lending and control of credit risk.

In 2012, the China Banking Regulatory Commission (CBRC) formally released the *Guideline of Green-credit Policy* to require the banking industry to be more supportive in encouraging the development of the Green Economy, Low-carbon

¹⁸ The State Environmental Protection Administration (SEPA) has changed its name to the Ministry of Environmental Protection (MEP) as from 2008.

Economy and Recyclable Economy. The Guidelines consist of seven Chapters, comprising General Provisions, Organization and Management, Policy, System and Capacity Building, Process Management, Internal Control and Information Disclosure, Monitoring and Examination, Supplementary Provisions (CBRC, 2012). It is significant for requiring banks to strictly control their lending to industries that are energy-intensive, highly polluting or saddled with overcapacity. This guideline has very specific words about requiring the banking industry to encourage the development of green loans, to effectively control the social and environmental risk and to enhance the management of green loans (CBRC, 2012). Besides, CBRC suggests that banks should pay more attention to the disclosure of information and internal control of the credit granting process (Nanfang Daily, 2012).

The Equator Principles have been developed as an international lending standard; and China has been encouraging financial institutions, via their intermediation role in resource allocation, to implement the Equator Principles since 2007 when President Hu emphasised the need to move towards a Low-carbon Economy (Tang & Zhong, 2010). As a result, some Chinese banks may also be applying the principles, but only one Chinese bank is listed as an “Equator Principles Financial Institution” (EPFI), China’s Industrial Bank adopted the Equator Principles from November 2008 (IFC, 2008). Since adopting the Equator Principles in 2008, the Industrial Bank has kept its commitment to finance and sustainability matters, by releasing annual Corporate Social Responsibility reports and developing a distinctive CSR system for major stakeholders. Accredited with the Best Financial Institution of Social Responsibility Award in 2012, the Industrial Bank remains the only EPFI in China at the time of writing (Industrial Bank, 2014).

In the following chapter, theoretical perspectives which will be considered in relation to the development of CSR, especially in China, as discussed in the previous chapter and this chapter, will be considered.

Chapter 4

Theoretical Framework

4.1 Introduction

There are a number of theoretical perspectives which have been considered in the literature chapter in relation to CSR. In this chapter, four of these theories will be discussed and a case will be made for their all having relevance to this study. It will also be argued that these four theories are complementary rather than mutually exclusive and that each of them can be useful in analysing and helping to make sense of the phenomenon of CSR in the Chinese banking sector. The consideration of the value of the various theoretical perspectives in relation to the findings from the empirical work is to some extent an iterative process which will be considered in the later chapters.

The theories that will be considered in this chapter are stakeholder theory, legitimacy theory, institutional theory and political economy theory; and in this order, these four theories could be viewed as progressively taking a widening field of resolution from the organization to the broader societal context in which it operates. Before considering each of these four theoretical perspectives in detail, an attempt is made here to justify the suggestion that the complementary nature of these different perspectives means that they all merit consideration in this research thesis.

In a recent study of corporate social responsibility communication in China, Tang and Li (2007) identify a central debate regarding whether CSR should, for a particular company, be viewed as a relationship with particular stakeholders or with wider society. They characterize stakeholder theory as meaning that “corporations operate

with a system of stakeholders within a particular society and need to respond to the interests and requirements of these stakeholders” (Tang & Li, 2009, p.201). They also cite Clarkson (1995) to support a view that managers “understand and handle companies’ social responsibility by managing their relationship with key stakeholders” (Tang and Li, 2009, p. 201).

The above descriptions of stakeholder theory are then contrasted with an ‘institutional perspective’ in which CSR is viewed as an outcome of the political and legal context of a company, as well as cultural and religious factors. However, Tang and Li then go on to argue that “the stakeholder perspective and the institutional perspective do not necessary contradict each other” and that “interaction between” companies and their stakeholders needs to be studied in an institutional context (Tang and Li, 2009, p. 201). They also suggest that this context itself can be considered at different levels of scale, from the relatively local to the global. Arguably this is particularly true of a country’s banking sector.

Legitimacy theory has been particularly emphasized in the social and sustainability reporting literature (Deegan, 2007), but legitimation is also a constant theme in discussion of institutional theory. Moreover, in the broader context of CSR the following quotation from Jackson and Apostolakou (2010, p.371) clearly identifies the legitimating role of institutions as follows:

“Institutional theory sees corporations as being embedded in a nexus of formal and informal rules (North, 1990). These rules range from coercive political regulation to less formal constraints such as normative influence of professional groups. The so-called ‘new’ institutionalism, thus, sees institutions as creating a variety of coercive, normative or mimetic pressures to firms to adopt particular structures

or practices to enhance their legitimacy (DiMaggio and Powell, 1991; Meyer and Rowan, 1977)”.

Finally, political economy theory arguably has particular salience when considering CSR in China given the country’s growing influence in global economic and political affairs. In the discussion of political economy theory by Gray et al., (1995), two contrasting approaches are discussed; these are bourgeois and classical theories of political economy. Further refinement of one or both of these approaches, or a new approach may be necessary to reflect the distinctive nature of the social and economic history of China and its current socio-economic trajectory. In considering international differences in CSR, the usefulness of an approach based on comparative political economy was emphasized by Campbell, (2007, p.947) in a paper which explicitly proposed an institutional theory of CSR:

“In recent studies scholars have argued that the tendency toward socially responsible corporate behaviour varies across countries and that much more research is required to understand why (Maignan & Ralston, 2002). The comparative political economy literature is useful in this regard because it has a long tradition of examining how political and economic institutions vary cross-nationally and affect economic activity. The institutional analysis literature is useful because institutionalists understand that institutions beyond the market are often necessary to ensure that corporations are responsive to the interests of social actors beside themselves, particularly in today’s increasingly global economy (Scott, 2003, p.346). In other words, in both bodies of literature, researchers recognize that the way corporations treat their stakeholders depends on the institutions within which they operate (e.g., Fligstein & Freeland, 1995; Hall & Soskice, 2001).

The rest of this chapter discusses the perspectives offered by stakeholder theory, legitimacy theory, institutional theory and political economy theory. The meanings of each theory will be outlined first, and then the issues of how they can be applied in the area of corporate social responsibility will be further investigated.

4.2 Stakeholder Theory

There is a natural connection between the concept of CSR and an organization's stakeholders (Carroll, 1991, p.43). Moreover, Branco and Rodriguez (2007) concluded that researchers who carry out research on ethics and social responsibility issues have mostly applied stakeholder theory. The significance of 'stakeholders' was discussed by Freeman (1984, p.46) who defined them as follows:

“Any group or individual who can affect or is affected by the achievement of the organization's objectives”.

Edward Freeman's (1984) stakeholder theory implies that corporate performance should be evaluated by a company's ability to satisfy not only its shareholders, but also other important corporate stakeholders such as employees, suppliers, customers, activist groups, general public, society and communities (Freeman, 1998; Deegan, 2002).

Clarkson (1995) distinguishes two groups of stakeholders: primary and secondary. The first group contains the key persons or organizations on whom the company depends in order to survive, and regularly contains shareholders, government, employees, customers, investors, suppliers and communities. The secondary group consists of the stakeholders who are affected by the company, but who are not involved in any direct dealings with it.

Freeman's (1984) stakeholder theory recommends that in order to achieve their objectives, companies identify all their important stakeholder groups and try to manage stakeholder relationships which may involve identifying the priorities and goals of each of these groups. Wan (2006) notes that the application of stakeholder

theory accepts that different stakeholder groups will have different views about how a corporation should conduct its operations. Deegan and Unerman (2006) suggest that all stakeholders have a right to obtain information about organizational activities, such as pollution. Stakeholder theory attributes managerial accountability to organizations, which extends beyond their economic or financial performance. In managing their relationship with stakeholders organizations will be expected to voluntarily disclose information about their social and environmental performance over and above compulsory disclosure requirements which focus on the financial stakeholder (Deegan, 2002).

According to Guthrie et al., (2003) stakeholder theory has two branches; they are the ethical (moral) branch and the positive (managerial) branch. The moral perspective of stakeholder theory argues that all stakeholders have the right to be treated fairly by an organization, and that consequently the issue of stakeholder power is not directly relevant to giving consideration to the interests of the stakeholder. In this context, Hasnas (1998, p. 32) states that:

“When viewed as an ethical theory, the stakeholder theory asserts that, regardless of whether stakeholder management leads to improved financial performance, managers should manage the business for the benefit of all stakeholders. It views the firm not as a mechanism for increasing the stockholders’ financial returns, but as a vehicle for coordinating stakeholder interests, and sees management as having a fiduciary relationship not only to the stockholder, but to all stakeholders. According to the ethical stakeholder theory, management must give equal consideration to the interests of all stakeholders and, when these interests conflict, manage the business so as to attain the optimal balance among them...Hence, in its normative form, the stakeholder theory does imply that business has true social responsibility”.

In other words, the broader ethical perspective is that all stakeholders should be treated fairly by an organization, and they also have a right to be provided with information about how the organization is impacting on them, irrespective of whether they are able to articulate their information needs. Moreover, managers should manage the organization for the benefit of all stakeholders (Deegan and Blomquist, 2006).

The managerial variant of stakeholder theory considers the different stakeholder groups within society and how they should best be managed to advance the organization's objectives; the theory also considers that the expectations of the various stakeholder groups will impact on the operating and disclosure policies of the organization (Deegan and Blomquist, 2006; Deegan, 2002). In this sense, the organization will not respond to all stakeholders equally, but rather, will respond to those that are seen to be 'powerful' (Bailey et al., 2000). A stakeholder's power to influence corporate management is viewed as a function of the stakeholder's degree of control over resources required by the organization (Ullman, 1985). The major role of corporate management is to evaluate the importance of meeting stakeholder demands to achieve the strategic objectives; moreover, the expectations and power relativities of the various stakeholder groups can change over time, so organizations must continually adapt their operating and reporting behaviours (Friedman and Miles, 2002). In order to identify stakeholders' degree of control, Mitchell et al.(1997) argue that organizations need to identify "Who or What Really Counts". They state that institutional and population ecology theories contribute to understandings of the important effects of the environment of organizations. Moreover, organizational legitimacy is linked closely with survival, because "legitimate" stakeholders are those

who really count and are seen as legitimacy figures which can help to identify stakeholders that merit managerial attention. Under institutional theory “illegitimacy” results in pressures on organizations which operate outside of accepted norms (Mitchell, Agle, and Wood, 1997).

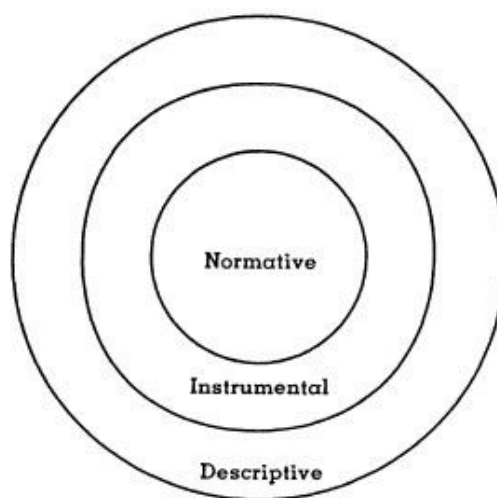
In this research thesis, within the Chinese banking context, the managerial perspective of stakeholder theory is regarded as a realistic and appropriate means of understanding how managers evaluate the degree of control or influence on their bank by stakeholders such as government or communities.

Donaldson & Preston (1995, p. 65) identify three aspects of stakeholder theory on: "the basis of its descriptive accuracy, instrumental power, and normative validity". They argue that stakeholder theory can be used in these three different approaches, but that they mutually support each other. The descriptive theory can be used in an empirical way to describe and explain corporate behaviour and characteristics. Moreover, stakeholder theory is also an instrument which can operate as a framework for identifying connections, or insufficient connections, between stakeholder management and the achievement of corporate objectives. The instrumental approach considers stakeholders' interests as elements to be taken into account in achieving objectives and Donaldson & Preston (1995, p. 71) conclude that there are a number of instrumental studies of corporate social responsibility which refer to stakeholder perspectives in implicit or explicit ways by applying traditional statistical methodologies or based on interviews and surveys. In addition, stakeholder theory can be used in a normative way, in order to prescribe how companies *should* take stakeholders into account. This could include identifying the moral or philosophical

guidelines which should be applied in the organization's business operation and management. But the 'ethical' approach to stakeholder theory is not the only possible normative perspective: Donaldson & Preston argue that Friedman's (1970) attack on the concept of CSR was also cast in normative terms.

Donaldson & Preston (1995, p. 74) found evidence from their survey to support their argument of three aspects to stakeholder theory - as shown in Figure 4- 1. They state that the three perspectives of stakeholder theory are nested within each other. The descriptive aspect is in the external shell, due to it explaining relationships that are observed in the external world. The second level is the instrumental and predictive value which is based on descriptive accuracy and seek to achieve certain results by certain practices. Normative theory is the central core which provides a fundamental normative base to stakeholder management by recognizing ultimately moral values and obligations.

Figure 4- 1 Three Aspects of Stakeholder Theory



Source Donaldson & Preston, 1995, p. 74

This research thesis applies descriptive theory from Donaldson & Preston (1995) to examine and explain Chinese banks' CSR behaviour and reactions to their key stakeholders in the context of the legitimating environment, such as moral or philosophical guidelines. Moreover, the researcher explores the connection between stakeholder management and corporate goals by carrying out interviews as instrumental, and potentially normative, studies of corporate social responsibility.

In addition to Donaldson and Preston's (1995) three aspects of stakeholder theory, Branco and Rodriguez (2007) raise similar arguments that the concept and evolution of CSR should be based on a stakeholder perspective and that these have the capability to address normative and instrumental aspects. They also state that stakeholder views cannot be ignored when we want to discuss and analyse CSR by citing the Matten et al., (2003, p.111) argument which notes that "stakeholder theory is considered as a necessary process in the operationalisation of corporate social responsibility, as a complementary rather than conflicting body of literature".

Mitchell et al., (1997, p.854) suggest that managers' perceptions of three key stakeholder attributes which include: "power to influence the company, legitimacy of the relationship with the company and urgency of the claim on the company" affect the degree of managers' priority response to stakeholders' claims. Deegan and Unerman (2006) argue that as the level of stakeholder power to influence the company increases, the importance of meeting that stakeholder's demands increases; some stakeholder demands relate to the provision of information about the organization's activities, such as public reporting which will be directly related to the expectations of particular stakeholder groups. 'Information' is a major component

within the managerial perspective of stakeholder theory, and it can be adopted by organizations to manage their stakeholders and to gain their support (Gray et al., 1996, p. 46). Therefore, information in the CSR report is seen to be disclosed by the corporation for strategic reasons, rather than on the basis of any perceived responsibility (Deegan, 2002).

In relation to currently stand alone corporate social responsibility reports, social responsibility activities such as helping to save the environment, and donating to poor communities are helpful in developing and maintaining satisfactory relationships with stockholders, creditors, and political bodies; and these activities can be seen as part of a strategy for managing stakeholder relationships (Deegan and Unerman, 2006, p.290). For example, Neu, Warsame and Pedwell (1998) reviewed the annual reports of a number of publicly traded Canadian companies operating in environmentally sensitive industries from 1982 to 1991; they found that companies were more responsive to the demands or concerns of financial stakeholders and government regulators than to the concerns of environmentalists. There are many British and American companies in China who are complying with the CSR guidelines and regulations from the government regulators, paying for the services of CSR consultancies to produce CSR codes, write and edit CSR reports, promote their CSR credentials, and give CSR education to their current staff (Zhao, 2012).

To sum up, a stakeholder perspective can help us to understand and to explain to whom, and to what, managers should and do pay attention from both ethical and managerial stakeholder perspectives; further it can enable a wider understanding of the degree of stakeholders' power to influence the company, how different

stakeholders can contribute to the success of the company, and the priority of managers' response to their claims (Donaldson, 1995; Branco and Rodriguez, 2007; Mitchell et al., 1997). Under the Chinese cultural and recent harmonious social context, stakeholders' interests can be seen as the key instrument for promoting more harmonised and supportive living and working environment, in order to provide opportunities for sustainable development. This research particularly focuses on stakeholder theory in order to understand and explore what Mitchell et al (1997) calls "Who or What Really Counts" in Chinese banks, how these banks identify and respond to the interests of their stakeholders, and which stakeholder groups are regarded as significant when we include consideration of CSR disclosure performance.

Stakeholder theory focuses on how an organization interacts with particular stakeholder groups; and legitimacy theory which is going to be discussed in the following section can help us to understand how and why organizations consider specific interests, and interactions with 'society' as a whole (Deegan and Unerman, 2006).

4.3 Legitimacy Theory

As discussed in the above section of stakeholder theory, Mitchell et al., (1997) argue that researchers who are searching for the "normative core" (p.857) for stakeholder theory, focus more on identifying the basis of stakeholder legitimacy. They also state that the "Principle of Who or What Really Counts" is based in legitimacy. Lindblom (1993, p.2) defined legitimacy as:

“A condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists

between the two value systems, there is a threat to the entity's legitimacy”.

Organizations operate in a social, political and economic context; their continuing existence depends on obtaining and maintaining social support, in other words legitimacy (Buhr, 1998). Mitchell et al., (1997) argue that Suchman's (1995) definition of legitimacy is broad based and useful in their approach to stakeholder identification. They cite the definition as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574).

It has been famously argued by Milton Friedman (1962), that profit maximization is perceived to be the optimal objective of corporate activity. In his opinion, a firm's profits are viewed as an all-inclusive measure of organizational legitimacy. However, this view has been widely challenged and societal expectations have experienced great change in recent years. Legitimacy theory emphasizes that organizations should consider the rights and opinions of the public at large, not only their investors; and if the organization fails to comply with societal expectations then this may lead to sanctions being imposed by society (Buhr, 1998).

Dowling and Pfeffer (1975, p.68) categorized two dimensions at play in an organization's efforts to achieve legitimacy: ‘(1) action – are the organization's activities matching with social values?; and (2) presentation – do the activities appear to be matching with social values?’. Legitimacy theory gives the argument that there is a ‘social contract’ between the organization and the society in which it operates

(Campbell, 2003, p. 358). However, it is not easy to define the terms of this ‘social contract’; Deegan and Unerman (2006) indicate that ‘social contract’ is used to represent the multitude of implicit and explicit expectations from society about how the organization should conduct its operations. Gray et al. (1996) suggest that legal requirements provide the explicit terms of the contract, while other non-legislated societal expectations embody the implicit terms of the contract; consequently different managers and different organizations will have different perceptions about the various ‘terms’ of the contract.

As public expectations change, then the precepts of legitimacy theory would suggest that organizations must also adapt and change (Hoque, 2006). In relation to these changing expectations, Lindblom (1993, p.3) states that:

“Legitimacy is dynamic in that the relevant publics continuously evaluate corporate output, methods, and goals against an ever evolving expectation. The legitimacy gap will fluctuate without any changes in action on the part of the corporation. Indeed, as expectations of the relevant publics change the corporation must make changes or the legitimacy gap will grow as the level of conflict increases and the level of positive and passive support decreases” (Lindblom, 1994, p.3).

There are two major sources of a ‘legitimacy gap’, the first one is that societal expectations might change; and the second major source occurs when previously unknown information becomes known about the organization, maybe through disclosure being made within the news media (Lindblom, 1993, p.3). Woodward et al. (2001) argue that when organizations are faced with different legitimization threats then they may seek to close any perceived ‘legitimacy gap’ by employing four broad legitimization strategies which were proposed by Lindblom (1993). First, legitimization may involve bringing “the organization’s output, methods, and goals into conformity

with popular views of what is appropriate” (Lindblom, 1993, p.13). Second, Lindblom argues that “legitimation efforts may result in a strategy in the organization attempts to demonstrate the appropriateness of the output, methods, and goals to the public through education and information” (Lindblom, 1993, p.14). Third, “the use of the CSD is oriented toward manipulating the perceptions of the relevant publics rather than toward educating and informing them” (Lindblom, 1993, p.15). Fourth, legitimation efforts may result in a strategy in which the organization attempts to bring popular views into conformity with organizational output, methods, and goals. Lindblom claims that “it is not neutral, unbiased information regarding the status of the corporation’s output, methods, or goals (Lindblom, 1993, p.16).

Legitimacy theory has broad application to various corporate strategies, particularly strategies on communicating a corporation’s activities which can involve the public disclosure of information (Hoque, 2006; Deegan and Unerman, 2006). Unerman et al. (2007, p.130) claim that the majority of research that has applied legitimacy theory, and which has focused on social and environmental or sustainability reporting, has been informed by the strategic (or managerial) perspective of legitimacy theory. Suchman (1995, p. 590) points out that “legitimacy management rests heavily on communication; therefore in any attempt to involve legitimacy theory, there is a need to examine some forms of corporate communications”. Organizations may communicate to, at least potentially, all their stakeholders through corporate disclosure, that they are complying with elements of the terms of the social contract and therefore, they achieve the legitimacy necessary for their continued survival (Khor, 2009). Khor (2009) also argues that corporate disclosure policies are dictated by legitimisation strategies; in addition, legitimisation strategies are in turn affected by,

or influence, the terms of the social contract. As a result, a two way causal flow exists between the strategies for legitimization and the terms of the social contract; in this way, legitimization strategies may be seen as opportunities for corporate disclosure actions (Khor, 2009).

Buhr (1998) indicates that the annual report is the most commonly accepted and recognized corporate communication tool; and Deegan (2000) suggests that annual report social disclosures are a useful means of reducing the effects upon a corporation of events that are deemed to be unhelpful to a corporation's image (Buhr, 1998). In this sense, legitimacy theory has been used to explain voluntary disclosures that are made within corporate annual reports or other stand-alone reports such as corporate sustainability reports (Hoque, 2006).

Legitimacy theory can explain why corporate management undertakes certain actions, such as corporate social disclosure (Lindblom, 1993; Deegan, 2007). In recent years, legitimacy theory has been used by many researchers of social responsibility reporting; the theory may have been adopted because companies' reports are seen to inform and be influenced by the notion of social contracts and organizational legitimacy (Deegan and Unerman, 2006; Khor, 2009). For example, an organization may draw attention to the positive information in its reports, such as environmental awards won, or safety initiatives, and ignore some information concerning negative impact of their activities, such as pollution or workplace accidents (Hoque, 2006; Deegan, 2006).

Deegan (2000) argues that the media can be particularly effective in driving the community's concern about the social and environmental performance of particular organizations; and if the concern is increased, then organizations can respond by increasing the extent of disclosure of social responsibility information in the annual report or CSR report. Moreover, Deegan and Brown (2014) claim that increased media attention has led to increased community concern for a particular issue, such as environmental issue and disclosure. They said as "the media are not seen as mirroring public priorities; rather, they are seen as shaping them" (Deegan and Brown, 2014, p.25).

Hoque (2006) argues that, compared to legitimacy theory, stakeholder theory focuses more from a stakeholder view of the organization; while the basis of stakeholder theory is supported by social contract, legitimacy, ethical, and institutional theories. It is important and necessary to apply legitimacy theory in helping us to identify stakeholders to whom managers pay particular attention (Mitchell et al., 1997). Therefore, we can conclude that it is unhelpful to treat legitimacy theory and stakeholder theory as two totally distinct theories.

Legitimacy theory has been particularly emphasized in the social and sustainability reporting literature (Deegan, 2007), but legitimation is also a constant theme in discussion of institutional theory which is going to be addressed in the next section. Larrinaga-Gonzalez (2007) argues that while legitimacy theory could be more useful for determining in the short term why an organization is making particular sustainability disclosures; institutional theory could be more helpful in the explanation of why sustainability reporting practices become

common in a particular context.

4.4 Institutional Theory

Institutional theory provides a useful complement to both legitimacy theory and stakeholder theory. Larrinaga-Gonzalez (2007) claims that there is an apparent overlap between institutional arguments about sustainability reporting and the overwhelming amount of legitimacy theory literature in social and environmental accounting. Deegan (2002) argues that there is overlap between institutional theory and legitimacy theory. Later on, Deegan (2006, p.305) notes that:

“A key reason why institutional theory is relevant to researchers who investigate voluntary corporate reporting practices is that it provides a complementary perspective, to both Stakeholder Theory and Legitimacy Theory, in understanding how organizations understand and respond to changing social and institutional pressures and expectations. Among other factors, it links organizational practices (such as accounting and corporate reporting) to the values of the society in which an organization operates, and to a need to maintain organizational legitimacy. There is a view that organizational form and practices might tend towards some form of homogeneity - that is, the structure of the organization (including the structure of its reporting systems) and the practices adopted by different organizations tend to become similar to conform with what society, or particular powerful groups, consider to be ‘normal’. Organizations that deviate from being of a form that has become ‘normal’ or expected will potentially have problems in gaining or retaining legitimacy” (Deegan, 2006, p.305).

Larrinaga-Gonzalez (2007, p.151) argues that institutionalization is usually considered as both the process and the outcome of a process, by which a social practice or behaviour becomes usual, desirable and taken for granted in corporations. Moreover, he concludes that institutional theory permitted different organizational motives to be explored: primarily based on the logic of appropriateness and on the social construction of reality. Coercive, normative (or cognitive) and mimetic institutional practices operate at different levels and moments through the

institutionalization process (Larrinaga-Gonzalez, pp. 155-157). DiMaggio and Powell (1983) argue that organizations compete not only for resources and customers, but for political power and institutional legitimacy, for social and economic fitness. They also emphasize that the concept of institutional isomorphism is a useful tool for understanding the politics. DiMaggio and Powell (1983, p.150) conclude three mechanisms of institutional isomorphic change as: 1) coercive isomorphism which stems from political influence and the problem of legitimacy; 2) mimetic isomorphism resulting from standard responses to uncertainty; and 3) normative isomorphism associated with professionalization, such as consultancy.

Moll et al. (2006, p. 184) describe three particular strands of institutionalism, namely: (1) old institutional economics; (2) new institutional economics, and (3) new institutional sociology. They explain "old institutional economics (OIE)" as early work that mainly explored institutions at the society (or macro-economy) level; and that generally considered why/how particular behaviours or structures emerge, or change over time. In more recent times, OIE theories have begun to focus on institutional phenomena within organizations rather than considering the power of politics and economy at the society level. For the second strand, Moll et al. (2006, p. 185) state that new institutional economics (NIE) is a "micro-analytical approach to the study of economic organization". They describe NIE as the way to open up the "black-box" of organizations through studies of the institutional environment such as rules and regulations, and institutional arrangements such as governance and other structures within organizations. Finally, new institutional sociology (NIS) is described as the approach which assumes that the internal structures and procedures of organizations are largely shaped by external factors rather than by cost-minimising

objectives (Moll et al., 2006, p. 186). Therefore, organizations which operate in similar environmental or social backgrounds are assumed to be "subject to comparable demands towards what is generally deemed as being appropriate behaviour, including [its] choice and design of internal structures and procedures" (Moll et al., 2006, p. 187). Scholars have used NIS theory to argue that institutions are transported by various carriers, such as cultures, structures, routines and different levels of jurisdiction (Scott, 1995).

Old institutional economics (OIE) and new institutional sociology (NIS) both draw on a broad variety of insights from cognitive science, and cultural studies (Moll et al., 2006, p. 188). They are used in this research, and expressed as "institutional theory", for exploring how Chinese banks have been, and continue to be, influenced by external rules and factors, such as company law or government regulations, CSR guidelines from nongovernmental associations, local culture, and the pressure from being unique when they do not implement CSR activities or disclosure. Campbell (2007, p.958) concludes that corporations will be more likely to act in socially responsible ways if there are strong and well enforced state regulations in place to ensure such behaviour; or if there are some private, independent organizations, such as NGOs, and the press, who monitor organizations' behaviour and when necessary, mobilize to change it. In addition, he argues that corporations may have in place self-regulation systems to ensure socially responsible behaviour, particularly if there is a perceived threat of state intervention otherwise (Campbell, 2007).

4.5 Political Economy Theory

Political economy theory arguably has particular salience when considering CSR in China given the country's growing influence in global economic and political affairs.

Gray et al. (1997) argue that “political economy” is certainly not a new concept but its application in accounting is fairly recent, and it has been defined by Gray et al. (1996, p. 47) as:

“The social, political and economic framework within which human life takes place”.

Guthrie and Parker (1989) explain the relevance of accounting and related disclosures within a political economy perspective. They state:

“The political economy perspective perceives accounting reports as social, political, and economic documents. They serve as a tool for constructing, sustaining, and legitimizing economic and political arrangements, institutions, and ideological themes which contribute to the corporation’s private interests. Disclosures have the capacity to transmit social, political, and economic meanings for a pluralistic set of report recipients” (Guthrie and Parker, 1989, p.166)

Political economy theory has two broad streams which Gray et al. (1996, p.47) have called ‘classical’ and bourgeois’ political economy. Gray et al. (1995, p.53) state that:

“The distinction is crucial because Marxian political economy places sectional (class) interests, structural inequity, conflict and the role of the State at the heart of its analysis. Bourgeois political economy largely ignores these elements and, as a result, is content to perceive the world as essentially pluralistic” (Gray et al., 1995, p.53).

Gray et al. (2006) argue that the essential difference between these two lies in the level of resolution of analysis and the importance placed on structural conflict within society. The role of the State is the heart of the analysis in classical political economy theory; and Hoque (2006) explains that classical political economy would tend to explain corporate disclosures as being a tool by which powerful individuals maintain their own positions to the detriment of those individuals without power. By contrast, ‘bourgeois’ political economy does not consider the question of structural or class-

based conflicts within society; it tends to be concerned with interactions between groups in a fundamentally pluralistic world (Hoque, 2006, p.168; Deegan, 2000, p. 252; Gray et al., 1996, p. 48). Gray et al. (1996) note that bourgeois political economy can be used successfully to help explain much of corporate social responsibility practice; it is especially useful, they argue, in helping to explain the absence of corporate social reporting. However, Gray et al. (1996, p.48) argue that whilst:

“Classical political economy offers direct insights with regard to mandatory disclosure rules, it has little to explain the detail of CSR practice, maintaining that CSR produced voluntarily can only be the scraps of legitimation dropped from the table of capitalism”.

Further modification of one or both of bourgeois and classical theories, or a new approach may be necessary to reflect the distinctive nature of the social and economic history of China and its current socio-economic trajectory. Campbell (2007, p.947) argues that the comparative political economy literature is useful because it has a long tradition of analyzing how political and economic institutions vary across different countries and influence economic activity.

Stakeholder and legitimacy theory are both regarded as consistent with, and even dependent on, a bourgeois political economy perspective. The Chinese political and economic context is different from the traditional view of society embodied in a predominantly Western bourgeois political economy perspective. However, it may be argued that the changes in China after the articulation of Chinese society's central task as being to work on economic development from late 1978, have resulted in a less authoritarian and centralised command and control economy, even though the overarching authority of the communist party is still a fundamental aspect of Chinese life (Hutton, 2007).

Deng Xiaoping announced a stop to the Cultural Revolution and a focus on economic development at the Third Plenum of the Central Committee of the Communist Party in 1978. The important decision to transform the economy from a predominantly central planning system to one taking account of market mechanisms was made in 1992, when the Party embraced the standpoint of senior leader Deng and called for the establishment of a Socialist Market Economy. The Central Committee of the Communist Party states that the market system in China is compatible with either capitalist or socialist systems. The reason for this statement is to establish an economic structure which is under the macroeconomic influence of the state, which in turn controls key prices and the distribution of resources (Bell et al., 1993). While the degree of pluralism observed in China is far from that associated with traditionally Western market economies; it may be argued that such pluralism as there is justifies the use of a stakeholder and legitimacy theories perspective in analysing CSR in the Chinese banking context.

4.6 Conclusion

There is variety of theoretical perspectives which have been adopted by a number of scholars in relation to CSR. In this thesis, stakeholder theory, legitimacy theory, institutional theory and political economic theory are considered primarily, in order to help to explain which stakeholder groups are given preferential treatment, and why Chinese banks publish certain social responsibility information in their CSR reports. These four theories are complementary to one another and can be used to analyze and explore current developments of CSR in the Chinese banking industry. In addition, they could be viewed as a progressive step by step which takes a widening field of resolution from the organization to the broader societal and culture context in which it operates. Stakeholder theory can be seen as the key to more efficient management and

to a useful, comprehensive theory of the company. Zhao (2012) concludes that applying stakeholder theory in corporate operation strategies is becoming more popular in Chinese companies, and stakeholders are gaining more attention from companies. This thesis does not seek to explore the relationship between CSR and banks' financial performance, or to analyse how to maximize value and manage social performance costs through particular theoretical perspectives. However, a stakeholder theory perspective can be applied here to identify banks' business strategies such as, for example, meeting key stakeholders' interests and achieving a goal of profit maximization. Moreover, Mitchell et al. (1997) questioning of "the Principle of Who or What Really Counts" is based in legitimacy. Legitimacy theory has been particularly emphasized and applied in the social and sustainability reporting areas (Deegan, 2007).

Stakeholder theory and legitimacy theory are both developed from political economy theory, and have been described as depending on a bourgeois political economy perspective. And as noted above, legitimation is a significant theme in discussion of institutional theory with organizations reacting to the Chinese economic and cultural context. The Chinese Socialist Market Economy is very different to traditional views of Western society embodied in a bourgeois political economy perspective. However it still can be argued that there is some justification in using stakeholder, and institutional legitimacy theory perspectives in analysing CSR in the Chinese banking context. The following chapters will outline the content analysis results of the banks' CSR reports and give the empirical findings from the semi-structured interviews which have been carried out in China. The findings will then be considered in the light of the complementary theoretical perspectives considered in this chapter.

Chapter 5

Methodology and Methods

5.1 Introduction

The previous chapter outlines the theoretical framework which is applied in this thesis for analyzing corporate social responsibility performance in the Chinese banking industry. Overall, Chapters 2 and 3 provide an essential literature background for an investigation about the meanings of CSR, CSR development, and the significance of the Chinese context in relation to CSR. In this chapter, the disclosure index, and the techniques, issues, and challenges in gathering the research data from multiple associations and banks are outlined. More specially, the methodology and methods which have fundamentally shaped the present research are outlined. The philosophical ideas supporting this research project are explained in greater detail. The philosophical position of the researcher is identified so that the reader is aware of the assumptions that have been made. In the following sections, all philosophical positions and their attendant methodologies are discussed; these, explicitly or implicitly, imply views about social reality. These views, in turn, determine what can be regarded as ‘knowledge’ and will shape the research question that is posed (Williams and May, 1996). A description of the methodology follows in section 5.3; this precedes an outline of the semi-structured interview and disclosure index methods which were used to gather empirical data for this study; section 5.5 concludes this chapter.

5.2 Research Paradigms

Research is a term used to describe a multitude of activities, such as collecting huge quantities of data, delving into theories and producing new products. In other words,

research is described as the systematic investigation into the study of materials or sources in order to establish facts and reach new conclusions (Walliman, 2006). Leedy (1989) defines scientific research from a functional point of view:

‘Research is a procedure by which we attempt to find systematically and with the support of demonstrable fact, the answer to a question or the resolution of a problem’ (p.5).

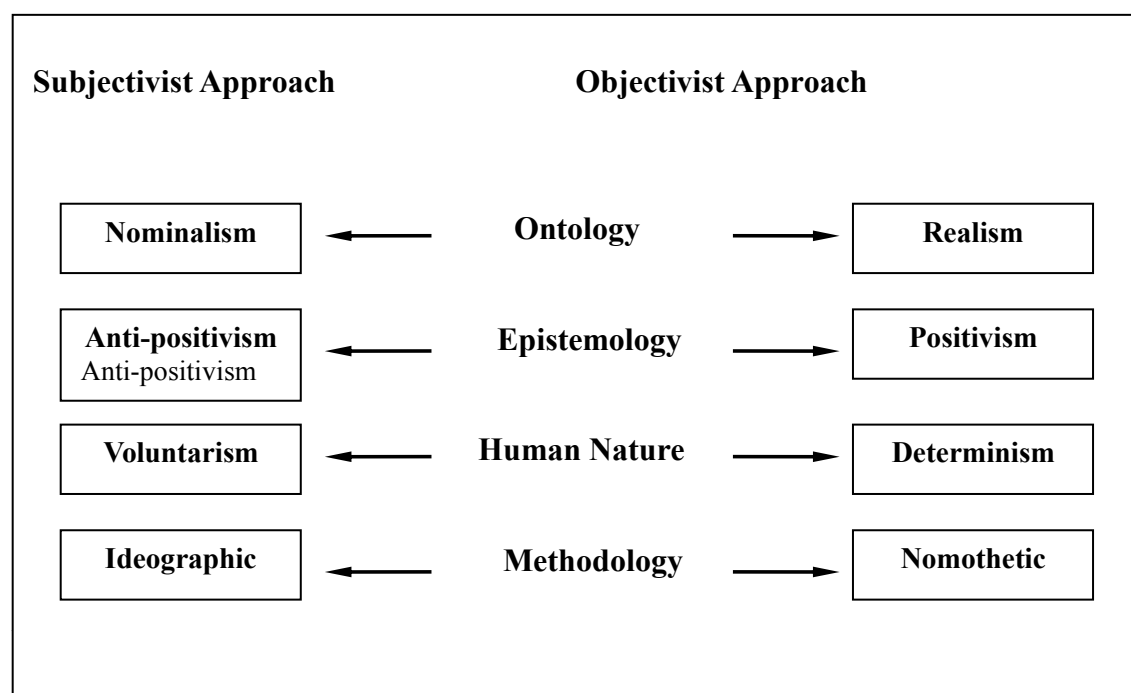
Kerlinger (1970) employs more technical language to describe it as:

‘The systematic, controlled, empirical and critical investigation of hypothetical propositions about presumed relations among natural phenomena’ (p.8).

Punch (2005) claims that research in the social sciences refers to the scientific study of human behavior. Thus, the term ‘social’ refers to people and their behaviour and to the fact that so much of that behaviour occurs in a social context; ‘science’ refers to the way that people and their behaviour are studied (Punch, 2005, p.8). The aim of social science is ‘to build an explanatory theory about people and their behaviour’ (Punch, 2005, p.8). However, Walliman (2006) argues that there is a huge difference between research into the natural world and research into human beings. Being human, we cannot take an impartial view of others; therefore, it is hard to build facts as external realities. Walliman (2006) states that ‘we can only aim for interpretation and understanding of the social world’ (p.14). As all social research is based on some philosophical assumptions which support different approaches to social science (Burrell and Morgan, 1979, p. 1) these philosophical assumptions either explicitly or implicitly affect the researcher’s view of the world and the way in which the social world may be investigated (Burrell and Morgan, 1979).

Burrell and Morgan (1979) suggest dividing social science research into two research approaches, a subjectivist approach and an objectivist approach. They argue that social theory can be conceived in terms of four key paradigms based upon two main sets of assumptions about the nature of social science and the nature of society. They state that these four sets of philosophical assumptions are founded upon mutually exclusive views of the social world, and they thus emphasize different approaches to social science relating to ontology, epistemology, human nature and methodology. These social science assumptions are shown in Figure 5- 1.

Figure 5- 1 Burrell and Morgan’s (1979) Schema for Analysing Assumptions About the Nature of Social Science Research



5.2.1 Ontology

The ontological and epistemological perspectives of a researcher guide the way to investigate various phenomena (Burrell and Morgan, 1979; Chua, 1986). Ontological assumptions involve the nature of reality or being. Burrell and Morgan (1979) pose the following question which is faced by social scientists:

‘Whether the “reality” to be investigated is external to the individual – imposing itself on individual consciousness; whether “reality” is of an “objective” nature, or the product of individual consciousness; whether “reality” is a given “out there” in the world, or the product of one’s mind’ (p. 1).

According to Burrell and Morgan (1979), social scientists may have different impressions of the same object, and the reason for these different opinions is usually caused by the difference between two different research approaches, the subjectivist approach and the objectivist approach. The subjectivist approach holds the view that society and social regulation is artificially constructed, this approach can be seen as nominalism. By contrast, an objectivist approach claims that our society is objective in reality and constant, and the social world has an existence which is similar to the natural world; this approach is called realism (Burrell and Morgan, 1979).

5.2.2 Epistemology

The second concern of Burrell and Morgan’s assumptions is about the nature of social science, epistemology, which deals with the grounds of knowledge. It is concerned with how we know things and what we can regard as knowledge within a discipline.

Burrell and Morgan (1979) explained that, based on:

‘what forms of knowledge can be obtained, and how one can sort out what is to be regarded as ‘true’ from what is to be regarded as ‘false’. it is possible to identify and communicate the nature of knowledge as being hard, real and capable of being transmitted in tangible form, or whether ‘knowledge’ is of a softer, more subjective, spiritual or even transcendental kind, based on experience and insight of a unique and essentially personal nature’ (p. 1-2).

The epistemological assumptions are characterised into two positions on a continuum ranging from positivism to anti-positivism which relate to whether knowledge is something which can be acquired or has to be personally experienced (Burrell and Morgan, 1979). In particular, positivism is the application of the natural sciences framework to the study of the social world. Burrell and Morgan (1979) used the

description of a positivist approach to ‘characterise epistemologies which seek to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements’ (p.5). Positivists believe that one can develop hypotheses and test them, and that knowledge is a cumulative process (Burrell and Morgan, 1979). In contrast, anti-positivists reject that observing behavior can help one understand it. They maintain that the social world can only be understood from the viewpoint of individuals who are directly involved in the activities to be investigated. Thus, all knowledge is unique to the person and can only be studied from each individual’s viewpoint (Burrell and Morgan, 1979, p.5).

Burrell and Morgan (1979) argue that ontological and epistemological assumptions have an impact on a researcher’s opinion about human nature and their environment; but conceptually, human nature is a separate concept from ontology and epistemology. The difference between a subjectivist approach and an objectivist approach about human nature can be characterised by posing the question, “are humans determined by their environment or do humans create their environment?” (Burrell and Morgan, 1979, p23). This examination envelops the philosophical debate between the advocates of determinism and voluntarism. By adopting a voluntaristic view, a researcher assumes that ‘man is completely autonomous and free-willed’ (Burrell and Morgan, 1979, p.6). At the other extreme, the determinist view assumes that human beings respond in ‘a mechanistic or deterministic fashion to the situations encountered in their external world. This view tends to be one in which human beings and their experiences are regarded as products of the environment’ (Burrell and Morgan, 1979, p.2). In other words, the activities of individuals are predictable in that their actions are determined by the social world which is considered to be independent from human

existence or consciousness.

Burrell and Morgan (1979) argue that the assumptions made by a researcher regarding ontology, epistemology and human nature have direct implications for the methodology used in their research. If the social world is viewed as if it is a hard, external, objective reality, then social scientists will tend to 'focus upon an analysis of relationship and regularities between the various elements' (Burrell and Morgan, 1979, p. 3). The nomothetic approach to social science emphasises the similarities between individuals; it stresses the importance of systematic protocols and techniques in research. For example, Burrell and Morgan (1979) describe the nomothetic approach as follows:

'it is epitomised in the approach and methods employed in the natural sciences, which focus upon the process of testing hypotheses in accordance with the canons of scientific rigour. It is preoccupied with the construction of scientific tests and the use of quantitative techniques for the analysis of data. Surveys, questionnaires, personality tests and standardised research instruments of all kinds are prominent among the tools which comprise nomothetic methodology' (p. 6-7).

On other hand, the ideographic approach to social science emphasises the differences between individuals. This approach is based on the view that one can only understand the social world by obtaining first-hand knowledge of the subject under investigation. Therefore, by adopting the ideographic approach, a researcher focuses upon understanding the way in which individuals creates, modify and interpret the world in which they live (Burrell and Morgan, 1979, p. 6).

5.2.3 Regulation and Radical Change

Dahrendorf (1959) distinguishes approaches to sociology which concentrate on explaining the nature of social order, and approaches focused more on problems of change, conflict and coercion in social systems. The distinctions between these approaches are referred to as the 'order-conflict' debate. Dahrendorf (1959) and Lockwood (1956, p. 136) address the debate around approaches that "characterize the stabilizing effects of social order", versus those approaches focused more on change. Dahrendorf (1959) sees the order conflict debate centred around two camps, one emphasizing stability, integration, functional co-ordination and consensus; it is essentially concerned with maintaining the patterns of the system as a whole. The other camp emphasizes change, conflict, disintegration and coercion. Traditionally, the prominent sociologists of Durkheim, Weber, and Pareto were concerned with social order, while Marx was concerned with social change. In reality this dichotomy is continuing (Burrell and Morgan, 1979). Burrell and Morgan (1979) suggest that the order conflict debate be replaced by the notions of 'regulation' and 'radical change'. They use the term 'sociology of regulation' to refer to theorists who are primarily concerned with providing explanations of society in terms that explore society's unity and cohesiveness. Radical change theories emphasize structural conflict, domination, and structural contradiction. Burrell and Morgan argue that the sociology of radical change is substantially concerned with people's emancipation from the structures that limit and stunt their potential for development, and with alternatives to, rather than with the acceptance of, the status quo (Burrell and Morgan, 1979, p. 17). Burrell and Morgan (1979) argue that the two models are separate and distinct from each other since they are based upon opposing assumptions. The elements contained in Figure 5-2 present fundamentally different views and interpretations of the nature of society.

Figure 5- 2 The Regulation-Radical Change Dimension

The Sociology of REGULATION is concerned with:	The Sociology of RADICAL CHANGE is concerned with:
(a) The Status quo	(a) Radical change
(b) Social Order	(b) Structural Conflict
(c) Consensus	(c) Modes of Domination
(d) Social Integration and Cohesion	(d) Contradiction
(e) Solidarity	(e) Emancipation
(f) Need Satisfaction	(f) Depravation
(g) Actuality	(g) Potentiality

Adapted from Burrell and Morgan (1979, p.24)

5.2.4 Burrell and Morgan's Four Paradigms

Combining the two dimensions outlined above (the subjective – objective dimension and the regulation – radical change dimension) Burrell and Morgan (1979) present four paradigms: the functionalist, interpretive, radical humanist and radical structuralist that exist within social research (Figure 5-3).

Figure 5- 3 Burrell and Morgan's (1979) Matrix for the Analysis of Social Theory

		The Sociology of Radical Change			
Subjective	Radical Humanist		Radical Structuralist		Objective
	Interpretive		Functionalist		
		The Sociology of Regulation			

Adapted from Burrell and Morgan (1979,p.24)

Burrell and Morgan (1979) claim that each of the paradigms shares a common set of features with its neighbours on the horizontal and vertical axes; and each set defines a separate social-scientific framework for world view. A social scientist who is located

in a particular paradigm will view the world in a particular way because the four paradigms 'define four views of the social world based upon different meta-theoretical assumptions with regard to the nature of science and of society' (Burrell and Morgan, 1979, p.24). Thus, Burrell and Morgan take the position that the four paradigms are mutually exclusive in the sense that one cannot operate in more than one paradigm at any given point in time, although one can operate in different paradigms sequentially over time.

According to Burrell and Morgan (1979), the interpretive paradigm reflects the sociology of regulation and takes a subjectivist approach. It is concerned with understanding the world as it is, based on the subjective experience of the participant, as well as the observer, and adopts an approach which is anti-positivist, voluntarist and nominalist and ideographic. Burrell and Morgan (1979) claim that the interpretive paradigm views the social world as an emergent social process which is created by the individuals concerned. Interpretive philosophers and sociologists 'seek to understand the very basis and source of social reality. They often delve into the depths of human consciousness and subjectivity in their quest for the fundamental meanings which underlie social life' (p. 31). In contrast, the functionalist paradigm is concerned about providing explanations of the status quo, social order, social integration, solidarity, need satisfaction and actuality.

Burrell and Morgan (1979) suggest that the radical humanist paradigm is concerned with developing a sociology of radical change from a subjectivist standpoint. On the other hand, the radical structuralist paradigm is concerned with the sociology of radical change and approaches its subject matter from an objectivist point of view. In

particular, the radical humanist paradigm has a lot in common with the interpretive paradigm of social science in that it views the social world from a perspective which tends to be nominalist, anti-positivist, voluntarist and ideographic. In contrast, the researcher who adopts the radical structuralist paradigm approaches research from a standpoint which tends to be realist, positivist, determinist and nomothetic. However, both the radical humanist and radical structuralist are committed to a sociology of:

‘... radical change, emancipation, and potentiality, an analysis which emphasizes structural conflict, modes of domination, contradiction and deprivation’ (Burrell and Morgan, 1979, p. 34).

For the radical humanist paradigm, human consciousness is placed at the centre of the analysis in keeping with its subjectivist approach to social science; Burrell and Morgan (1979) state that scientists who adopt this paradigm ‘seek to change the social world through a change in modes of cognition and consciousness’ (p. 33). In contrast to the radical humanists, who focus upon consciousness as the basis for a radical critique of society, the radical structuralists “forge their perspective” by concentrating upon structural relationships within the social world (Hannah, 2003). As Burrell and Morgan (1979) state ‘they emphasise the fact that radical change is built into the very nature and structure of contemporary society, and they seek to provide explanations of the basic interrelationships within the context of total social formations’ (p. 34).

5.2.5 Other Perspectives on Research Paradigms

Collis and Hussey (2003) identify two main paradigms, namely, the positivistic paradigm and the phenomenological paradigm. The positivistic paradigm is quantitative, scientific, objectivist and traditionalist. The phenomenological paradigm is qualitative, subjectivist, humanistic and interpretive. According to Collis and Hussey,

the phenomenological paradigm may also be referred to as the interpretive paradigm. Chua (1986) and Willmott (1993) criticise Burrell and Morgan's assertion that the four paradigms were mutually exclusive and that one could not operate in more than one paradigm at any given point in time. They argue that it is possible to operate across paradigms without fully inclining to one. In particular, Chua (1986) argues that Burrell and Morgan's (1979) assumption that these paradigms are separate and distinctive from each other is not justifiable on rational scientific grounds. Therefore, Chua (1986) develops alternative philosophical classification of research in an accounting context into, interpretive research and critical theory. The assumptions for this alternative classification are based on three sets of beliefs about: (i) knowledge; (ii) physical and social reality; and (iii) the relationship between theory and practice. Arguably, Burrell and Morgan's four paradigms may be considered to be "simplified learning tools that do not capture the complexity of what is possible in research" (Chua, 1986, Laughlin, 1995, Willmott, 1993).

5.3 Research Methodology, the Interpretive Paradigm

In relation to the Burrell and Morgan paradigms, the present research will be mainly concerned with the sociology of regulation and not radical change; therefore, the paradigm adopted will not be radical humanism or radical structuralism. Furthermore, the sociology of regulation perspective is consistent with using both the interpretive and functionalist paradigms; this research primarily uses a methodological approach from the interpretive paradigm. Content analysis in this research provides the research data of banks' CSR reports from 2005 to 2009, and it could be argued that does not fit in the interpretive paradigm. The main research deals with the perceptions of interviewees, who have knowledge about current corporate social responsibility performance in the Chinese banking industry.

Burrell and Morgan (1949) explain the interpretive paradigm as:

‘... informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experiences. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action’ (p. 28).

According to Burrell and Morgan (1979), the interpretive paradigm is the direct product of the German idealist tradition of social thought. This tradition is from the work of Immanuel Kant (1724-1797) who was one of the first philosophers to articulate its basic ontological and epistemological foundations. Moreover, it is consistent with Dilthey’s (1833) argument that the cultural sciences are essentially concerned with the internal processes of human minds that can only be fully understood in relation to the minds that create them and the inner experience which they reflect (Burrell and Morgan, 1979, p. 229). Weber (1864-1920) also claims that the key characteristic function of social science is to be ‘interpretive’, in order to understand the subjective meaning of social action. Furthermore, Weber points out that the objective reality of the social world is not a central issue; it is the way in which it is interpreted by human actors that is important (Burrell and Morgan, 1979, p. 231).

5.4 Research Methods

The main objective of this research is to explore current issues in corporate social responsibility in the Chinese banking sector through semi-structured interviews and content analysis of what the banks’ CSR reports say. Moreover, this study aims to undertake this exploration using insights from the political and cultural aspects of China and of Chinese society. Walliman (2006) concludes that qualitative research:

‘...does not involve counting and dealing with numbers but is based more on information expressed in words – descriptions, accounts, opinions, feelings, etc’ (p. 129).

Denzin and Lincoln's (2000) argument was cited in Hoque (2006), it states that:

‘Qualitative research is difficult to define clearly. It has no theory or paradigm that is distinctly its own...nor does qualitative research have a distinct set of methods or practices that are entirely its own’ (cited in Hoque, 2006, p. 376).

There are several research techniques available to the researcher embarking upon a qualitative inquiry (Hannah, 2003). The researcher has selected two methods of qualitative data collection from the range: (1) semi-structured interviews with bank staff, typically corporate social responsibility working group members, staff of assurance providers, and other experts in China; (2) content analysis of banks' CSR reports. The ways in which two research techniques may satisfy the criteria for ideographic methodology will be discussed in the following sections.

5.4.1 Semi-Structured Interviews

In order to gain some insight into the understanding of CSR in the Chinese Banking Industry, and of the impact of CSR on Chinese Banking practices including management strategy and disclosure procedure, it was decided that interviews were the most appropriate research technique for gathering information. Easterby-Smith et al. (1994) argue that interviews are useful when the researcher is attempting to find out about individuals' perspectives on certain issues. Interviews are a widely used research method in social science research. According to Robson (2002), there are three forms of interviews: fully structured, semi-structured and unstructured. In structured interviews ‘all respondents are asked exactly same questions in the same order with the aid of a formal interview schedule’ (Bryman, 2008, p. 544). By contrast, unstructured interviews are usually informal and only have a list of topics for guiding the interview. Semi-structured interviews are between the above two extremes; Bryman (2008) argues that:

‘Semi-structured interview refers to a context in which the interviewer has a series of questions that are in the general form of an interview schedule but is able to vary the sequence of questions. The questions are frequently somewhat more general in their frame of reference from that typically found in a structured interview schedule. Also, the interviewer usually has some latitude to ask further questions in response to what are seen as significant replies’ (p. 196).

In this research, structured research techniques, whether used by face to face interview or telephone interview, were not suitable for this interpretive research project; because it does not seek to make generalizations¹⁹ from its findings (Hannah, 2003). Unstructured interviews are also considered to be unsuitable as they cannot give a sufficient insight into the researcher’s particular areas of interest. The interview questions should guide the interviewees to consider the particular issues on corporate social responsibility. Therefore, semi-structured interviews were considered to be the most appropriate technique to enable the interviewees to give answers in specific areas suggested by the general literature. Due to the face to face format of semi-structured interviews, any confusion about a respondent’s answers may be clarified by follow up questions (Patton, 1990). Moreover, this technique gives the participants an opportunity to further discuss any issues that they think are relevant to the interview questions or topics.

The semi-structured interviews were carried out with 16 interviewees: bank’s CSR employees or general staff, CSR consultants from auditing firms, and CSR experts and academics in China. A summary analysis of these interviewees’ details will be provided in the semi-structured interview discussion below.

¹⁹ Generalisations in this context refers to statistical generalizations as opposed to analytic generalizations (Yin, 2012).

The particular interviewees in the current research were selected on the basis of several criteria: firstly, their knowledge, experience and or participation in the field of corporate social responsibility in the banking sector; in this sense the majority of interviewees were staff or managers from the Corporate Citizenship or Public Relationship departments in banks. Other interviewees such as CSR experts from the consultancy firm, auditors, and general banking staff were included as stakeholders who might have an interest in banks' CSR activities and disclosure in China. A second important factor that influenced the selection of interviewees was their availability and willingness to take part in the interview. Prior to the interview, contact was established with each through personal connection, such as family contact or previous working contact; no interviewees were found through official contact or by 'cold' calling. For example, the researcher sent emails to 15 local Chinese banks' public relations departments seeking their willingness to participate in the research. However, no bank accepted the interview through this kind of official contact; some replies said that they had to wait for head office permission for taking the interview, or indicated 'please see our CSR report which can provides all the information to you'; and almost all of the contacted banks never responded to the email.

In general, each interview that was conducted for the research lasted around one hour, and was not taped. Most of the interviews were carried out in a tea house or coffee shop in the form of an informal conversation. Interviewees refused to allow the conversation to be taped; in addition, hand written notes made them feel uncomfortable or nervous. Therefore, it was particularly important for the researcher to explain the research purpose to the interviewees when arranging the interview, in order to emphasize that the interview results would only be noted for academic

research purposes, and not for any other media usage or government research. During the interviews in the offices or the coffee shop, brief notes were taken to remind the researcher about the responses that were given. Then after each interview, the responses were detailed and translated from Chinese into English. As interviewees were personally contacted through the author's network it became clear after the first interview that most interviewees desired to become friends with the author and to keep contact for any further informal interviews or visits after this establishing of "Guanxi" through the personal contacts and carrying out the first interview.

A set of interview questions was designed in order to give some direction to the interviews and to ensure that relevant questions to cover the same material were identified; this is in Appendix 7.1 on page 280. There were 15 questions, divided into 5 sections. The first section begins with the interviewees' background information such as their occupation, position, and education. The second section relates to interviewees' understanding of Corporate Social Responsibility, and, from the stakeholder perspective, how CSR influences their organization's processes, stakeholders, and lending decisions. The focus of the study was explained to each interviewee by the questions in the third section (which are mainly concerned with the potential role of legitimacy theory), such as the possible influence of corporate social responsibility guidelines from the China Banking Association, and the CBA's motivation in providing the guidelines. Moreover, from the stakeholder and institutional perspectives, the pressure from government for pushing CSR in China is another key point in this section. It was hoped that the interview questions would serve to encourage interviewees to openly discuss their ideas, experiences, perceptions regarding their experiences and views of CSR implementation and its

impact on the banking sector. The fourth section normally related to the influence of Chinese local political and cultural issues on CSR activities; this was used as a guideline to pursue the interviewees' views on cultural or historical perspectives. The final section of questions was more open-ended, in order to let interviewees feel free to give their personal suggestions as applicable for future improvement of CSR activities and future government regulations._

5.4.2 Content Analysis (disclosure index)

The second research method adopted in this research is a form of content analysis which is used to analyse corporate social responsibility reports from the Chinese banking industry according to the Global Reporting Initiative (GRI) guidelines. The following section gives a summary of this research method and its suitability to the present research study.

Content analysis has been used for long time in the fields of communication, journalism, sociology, psychology, and business (Dunne, 2003; Krippendorff, 2004). It is potentially one of the most important research techniques in the social sciences. As a research technique, content analysis provides new insights, increases a researcher's understanding of particular phenomena, or informs practical actions (Krippendorff, 2004). Content analysis is a scientific tool (Krippendorff, 2004); and is defined by Berelson (1952) as:

‘a research technique for the objective, systematic and quantitative description of the manifest content of communication’ (p.18).

More recently, Bryman (2008) defines content analysis as:

‘... an approach to the analysis of documents and texts that seeks to quantify content in terms of predetermined categories and in a systematic and replicable manner’ (p.274).

Bryman (2008) further argues that, in a sense, content analysis is not a research method; it is an approach to the analysis of documents and texts rather than a means of generating data. He suggests that people usually define it as a research method because of its distinctive approach to analysis.

The basic principle behind content analysis is that verbal behaviour, as communicated through written text²⁰, can help explain human behaviour (Dunne, 2003). Content analysis has several advantages, such as providing a means for quantifying the content of a text; and it is a very transparent research method (Denscombe, 1998; Bryman, 2008). Furthermore, Krippendorff (1980) argues that this research method is ‘unobtrusive’ which means documents can be evaluated without the knowledge of the communicator. In addition, content analysis is a highly flexible method which can be applied to a wide range of different kinds of unstructured information (Bryman, 2008). Traditionally, quantitative methods of content analysis have been adopted by analyzing archival data and qualitative methods have relied on the analysis of interviews. Smith and Taffler (2000) identify two alternative generic approaches to content analysis: one is the ‘form oriented’ (objective) analysis, which contains routine counting of words or existing references; and another approach is ‘meaning oriented’ (subjective) analysis, which focuses on analysis of the fundamental topic

²⁰ Berelson (1952, p.18) emphasized that content analysis can be applied to private communications like conversation or the psychoanalytic interview just as it can applied to public or ‘mass’ communications like newspapers and radio programs.

under investigation. Content analysis is not only used in analyzing quantitative, but examines qualitative data as well (Smith, 2003).

Like all research methods, content analysis also has limitations. Bryman (2008, pp. 288-291) summarises several limitations of this research technique as follows: it can only be as good as the documents on which the practitioner works. Content analysis cannot devise coding manuals²¹; and it is difficult to ascertain the answers to ‘why’ through content analysis. Therefore, sometimes, users of content analysis have had to find the answer to ‘why’ questions by conducting additional data collection exercises, such as interviews.

5.4.2.1 Reliability and Validity

Content analysis is expected to exhibit certain key characteristics which make it an effective tool for researchers. The technique is expected to be reliable and it must also provide valid results (Dunne, 2003). In other words, the technique should result in findings that are replicable. Replicability is the most important form of reliability, claimed Krippendorff (2004), who identified three types of reliability: stability²², reproducibility²³, and accuracy²⁴. They are classified by the way the reliability data are obtained (Krippendorff, 2004).

Reliability needs to be demonstrated both in terms of category reliability and intercoder reliability. Neuendorf (2002) argues that intercoder reliability is essential, a necessary criterion for valid and useful research when human coding is employed; it is

²¹ When using content analysis, it is almost impossible to devise a coding method that does not entail some interpretation on the part of coders.

²² Stability: the degree to which a process is unchanging over time (Krippendorff, 2004).

²³ Reproducibility: the degree to which a process can be replicated (Krippendorff, 2004).

²⁴ Accuracy: the degree to which a process conforms to its specifications and yields what it is designed to yield (Krippendorff, 2004).

expressed as the percentage of agreement between several judges processing the same communications material (Dunne, 2003). Intercoder reliability is important for providing basic validation of a coding scheme and benefiting from the practical advantage of using multiple coders (Neuendorf, 2002). Category reliability depends upon the analyst's ability to formulate categories and present to competent judges who will agree on which items of a certain population belong in a particular category, and which do not (Kassarijian, 1977; Dunne, 2003).

Reliability is one of the distinguishing characteristics of content analysis, in contrast to other techniques which are often used when describing the content of communication (Dunne, 2003). Neuendorf (2002) claims that without the establishment of reliability, content analysis measures are useless and cannot be considered valid.

In contrast to reliability, validity concerns truths (Krippendorff, 2004); it is the standard of having a 'good' measurement. Validity may be seen as encompassing the criteria of reliability, accuracy and precision; it relates to how well the results of a study mirror and measure what is claimed to be measured (Neuendorf, 2002; Dunne, 2003). In other words, validity provides assurances that the claims emerging from the research are consistent with the work done (Krippendorff, 2004). A measure cannot be valid if it is not reliable; on the other hand, a measure may be reliable and still not be valid. In order to reveal validity, one needs to develop a scheme that guides coders in analysis of content (Dunne, 2003). The coding scheme can help to eliminate partial or biased analysis, to ensure the data relevant to a scientific problem is secured and that the findings have theoretical relevance (Dunne, 2003).

5.4.2.2 Content Analysis in the Current Research

Content analysis has been widely used in social accounting research, especially in the area of social and environmental reporting. For example, Guthrie and Farneti (2008) used a disclosure index, a form of content analysis, to investigate voluntary sustainability reporting practices in the Australian public sector by reference to the Global Reporting Initiative guidelines. In addition, Gray et al. (1995) claim that content analysis has been widely employed in corporate social reporting research, although it is less commonly adopted in mainstream accounting research.

In this thesis, content analysis is viewed primarily as a qualitative research method, because this research focuses on analyzing corporate social responsibility reports which are not typically expressed in numbers or monetary terms in contrast to financial statements which predominantly are.

The author spent a considerable time identifying which banks' CSR report(s) should be the sample of study, in order to promote the systematic planning of the research. In China there are many public social responsibility associations, stock exchanges and government banking associations which list some banks' CSR reports on their web site, such as CHINACSR²⁵, CSR-China²⁶, Shanghai or Shenzhen Stock Exchange, and China Banking Regulatory Commission or China Banking Association. However, none of these associations provides a complete list of CSR reports. Therefore, the author decided to gather the banks' CSR reports guided by a range of government associations which include China Banking Regulator Commissions, China Banking Association, and Shanghai or Shenzhen Stock Exchanges.

²⁵ CHINACSR is a public association which provides news and information devoted to helping corporate social responsibility professionals act on new trends and forge new paths of their own.

²⁶ CSR-China is a public association which has a huge database of CSR reports and news in China.

In addition, the author undertook a web search guided by the China Banking Regulator Commissions, China Banking Association, and Shanghai or Shenzhen Stock Exchanges on 1st August 2010. As a result, it became clear that there are three types of CSR information disclosure in the Chinese banking sector: that included in a 'Stand Alone' CSR report; that included in a bank's annual report; and the section called 'public relations' or 'social philanthropy' on the bank's web site²⁷. It is difficult to analyse banks' CSR disclosure in the annual reports and web site's social sections, because of the huge number of banks' annual reports and lack of standard guidelines.

In response to these difficulties, the author decided to use all banks' "Stand Alone" CSR reports for the research. The author gathered all the reports online. It was difficult to find a hard copy of the CSR reports from the Chinese banks, as the interviewees explained that it was not very useful to display the hard copy of CSR reports in their office. Based on the information gathered from the China Banking Regulator Commissions, China Banking Association, and Shanghai or Shenzhen Stock Exchanges there are in total 19 banks which have published "Stand Alone" CSR reports from 2006 to 2009. These amount in total, to 55 reports from: 1 policy bank, 4 Government State-owned banks, 8 Joint-Stock Commercial Banks, 4 City Commercial banks, and 2 Foreign Commercial Banks. 14 of the 19 banks are listed on the Stock Exchanges in China, therefore, their CSR publications or the Chinese version of the reports can be found from the Stock Exchange web site. The CSR news or Chinese reports of China Development Bank, Agricultural Bank of China, HSBC, and Citibank China Group which are not stock-exchange listed can be found from the CBRC and CBA web site where they existed. Some of banks in the research data

²⁷ 'Public Relations' or 'Social Philanthropy' sections on bank's web site provide CSR issues such as CSR award received, CSR events, recent CSR activity, and donations made by the bank.

published the English version of the CSR reports on the banks' home website, usually under the public relations, stakeholder interests, or corporate social responsibility sections. The author gathered all of the English versions of each "Stand Alone" CSR report online from the banks' home page. The CSR reports' contents will be compared based on the Global Reporting Initiative Guidelines in comparative tables in Chapter 6.

The author chose GRI guidelines as the disclosure index for the CSR report analyses as according to Manetti (2011) these guidelines are widely accepted and provide an international framework for reporting CSR for various types of organizations, and are considered the best choice available to report on sustainability issues. Moreover, Marston and Shrivies (1991) indicate that the disclosure index can be used to demonstrate the degree of compliance regarding regulations and the amount of voluntary disclosure which is presented in corporate reports, and it is a checklist of items that firms might disclose in their annual report. Coy and Dixon (2004, p.79) state that:

“Disclosure indices are an often applied method in accounting research, particularly in studies of annual reports, being used to provide a single-figure summary indicator either of the entire contents of reports of comparable organisations or particular aspects of interest covered by such reports”.

GRI issues sector supplements for particular industries, such as Financial Services Sector Supplements (FSSS) which is not intended as a replacement for the more general G3 framework but it does address the more specific issues in the financial services industry. The GRI's FSSS index, which is applied in the thesis, contains six categories, which are economic, environmental, labour practices and decent work,

human rights, society, and product responsibility, resulting in 97 individual indicators. In the following chapter, the author will give the overall summary of variation trend of each group of indicators from 2005 to 2009; analyse and discuss the disclosure index of GRI indicators in each year, and give examples of how the banks disclose some of the more pertinent indicators.

5.5 Conclusion

This chapter has presented a discussion of the methodological choices available and the ultimate approach adopted and the methods employed in the present research. In particular, the most common approaches to social research methodology, introduced by Burrell and Morgan (1979), are detailed. The four paradigms from Burrell and Morgan's classification of social science research are also listed and explained. In this research, according to Burrell and Morgan's classification, the interpretive paradigm with a subjective point of view is adopted. Furthermore, the study employs qualitative methods of collecting data by using both semi-structured interviews and content analysis. These methods were selected because of their convenience and feasibility in collecting data for the present research and due to the insight they can provide for the research questions. It would have been exceptionally difficult to use questionnaires and case studies in regard relate to access to sufficient numbers of people who could give a response to the questionnaire (and are prepared to do so) but also have some knowledge of CSR. In addition, banks seem to be very sensitive about researchers publishing information on what they really do and how they report CSR activities. Therefore, semi-structured interviews and content analysis of CSR disclosures enabled the researcher to analyse existing CSR, the expectations of CSR from different stakeholders, and perceptions of CSR implementation in the selected organizations.

The next chapter provides the results of the content analysis of all the CSR reports issued by banks in China from 2005 to 2009 inclusive, in addition to an overview of the Chinese banking sector, a description of relevant guidelines, such as the CSR guidelines from the China Banking Association (CBA), China Banking Regulatory Commission (CBRC), and Global Reporting Initiative (GRI).

Chapter 6

Overview of the Chinese Banking Sector, CSR Guidelines and an Analysis of CSR Reports

6.1 Introduction

The previous chapter described the methodology and methods which have been applied in this thesis. This chapter will present content analysis, in the form of a disclosure index, of all the CSR reports issued by banks in China from 2005 to 2009 inclusive, in addition to a description of relevant guidelines. The banks which are the subject of this research include Government State-owned banks, joint-equity commercial banks and foreign banks; these distinctions are discussed below. The reports analysed are all the Chinese banks' CSR reports released up to June 2010 since no CSR reports were issued prior to 2005. The information and insights obtained through the semi-structured interviews in Chapter 7 about banks' current CSR activities, future CSR strategy, and the guidelines adopted for CSR reporting are supplemented through the content analysis findings of CSR reports outlined in this chapter. Interviews took place before and after the analysis of the CSR reports.

The CSR reports from the different types of banks which are analysed in this chapter were issued by 19 banks and amounted in total, to 55 reports (see Table 6.5). 14 of the 19 banks are listed on the two Stock Exchanges in China. CSR reports are a requirement of the Shanghai and the Shenzhen Stock Exchanges under their information disclosure rules.

This chapter is divided into five subsequent sections: the introduction to the Chinese banking sector is followed by an exploration of the national and relevant global CSR

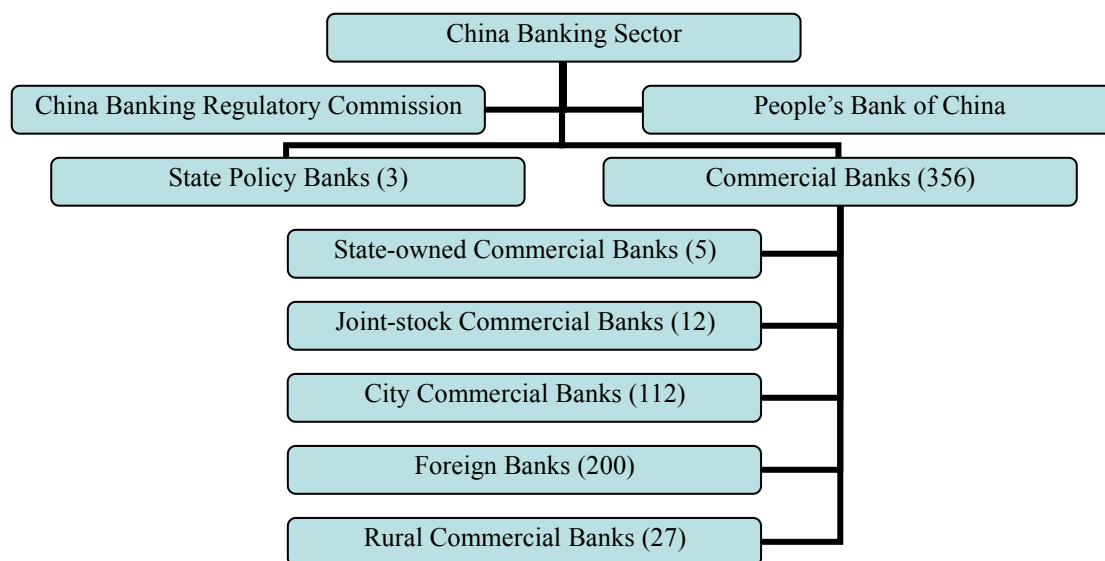
Guidelines. The fourth section contains a CSR reports check list for all the Chinese banks which have issued a CSR report from the first year of the issue of such reports in 2005 up to 2009. The fifth and sixth sections of this chapter respectively describe the ‘data selection and preparation’, ‘development of CSR reporting’, and analyse different banks’ reporting behaviour; some particular banks’ CSR reporting changes through the reporting years are also discussed along with examples of disclosures based on GRI indicators. Concluding comments are in the final section.

6.2 The Chinese Banking Sector

Excluding the People’s Bank of China, which is the central bank, there are six main categories of banks in China (See Figure 6-1): state policy banks, state-owned commercial banks, joint-stock commercial banks, city commercial banks, rural commercial banks, and foreign banks (KPMG, 2005 and CBRC²⁸, 2010). The Chinese central government decided to separate three state policy banks, as discussed further below, from commercial banks in the early 1990s; other developments of this reform saw transformation of urban credit cooperatives into commercial banks (1996-1998); granting limited licenses to some foreign financial institutions; and granting licenses to non-state commercial banks (Hasan et al., 2007). More recent developments include banks’ shares being traded on the stock exchange and minority foreign ownership stakes (Hasan et al., 2007).

²⁸ CBRC is the China Banking Regulatory Commission which is the main regulator of the banking sector in China. The official English version of a CBRC report states that it is responsible for "the regulation and supervision of banks, asset management companies, trust and investment companies as well as other deposit-taking financial institutions. Its mission is to maintain a safe and sound banking system in China" (CBRC, 2010).

Figure 6-1 China Banking Sector Overview



This figure highlights the structure of the banking sector in China, and includes the number of banks in each category. Source: adapted and updated from KPMG (2005, p. 3).

Formed in 1994, the policy banks (China Development Bank, Agricultural Development Bank of China, and The Export & Import Bank of China) are non-commercial banks, founded by the government and created via shares or guarantee. They have a not-for-profit status, are dedicated to implementing socio-economic policy or the intention of the Government, and are focussed on particular business areas. They engage in policy financing activities, such as economic and trade development and state-investment projects (KPMG, 2005).

In the middle of the 1980s, the then sole bank, the People's Bank of China, became a central bank and shed its retail banking functions by reforming to focus on monetary policy formulation. Its banking functions were divided into four²⁹ state-owned

²⁹ Strictly speaking, CBRC (2010) lists 5 state-owned commercial banks in China comprising Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of Communication. However, normally, Chinese people typically think there are, and refer to, "the big four state-owned banks" and many organizations or institutions also described them as the "Chinese big four state-owned banks".

commercial banks, each initially with a specialized remit that was reflected in their names: Bank of China, China Construction Bank, Industrial and Commercial Bank of China and Agricultural Bank of China (CBRC, 2010; KPMG, 2009). The Bank of China (BOC) specializes in foreign-exchange transactions and trade finance. The China Construction Bank (CCB) specializes in medium to long-term credit for long term specialized projects, such as infrastructure projects and urban housing development. The Industrial & Commercial Bank of China (ICBC) is the largest bank in China by total assets, total employees and total customers. It is the major supplier of funds to China's urban areas and the manufacturing sector. The Agriculture Bank of China (ABC) specializes in providing financing to China's agricultural sector and offers wholesale and retail banking services to farmers, township and village enterprises and other rural institutions (CBRC, 2010).

In 2000, the Chinese central government allowed several small banks to raise capital through bonds or stock issues. As a result the Shenzhen Development Bank, the Pudong Development Bank, and the China Minsheng Bank were listed on the Shanghai Stock Exchange in December 2000. Thereafter, more Chinese banks were listed on the Shanghai or Shenzhen stock exchange in order to raise capital (CBRC, 2010). By 2011, 16 banks were listed on Chinese stock exchanges, which comprised 5 state-owned banks, and 11 commercial banks (CBRC, 2011).

City Commercial Banks are an important component of Chinese banking and are responsible for providing financial support to SMEs, in order to pave the way for developing local economies. They were originally part of each city government's economic planning apparatus, and until now they have often maintained very strong

ties to their respective city governments. Moreover, city governments hold an average 75 percent of the banks' issued shares (KPMG report, 2007). KPMG's '*China's city commercial banks*' report in 2007 points out that:

“All city commercial banks have some level of local government influence, which in the past has often had an impact on the quality of the loan portfolio of the bank. The extent of local government influence over the operations of the bank will vary and may affect certain aspects of the bank's operations more than others” (KPMG 2007, p.2).

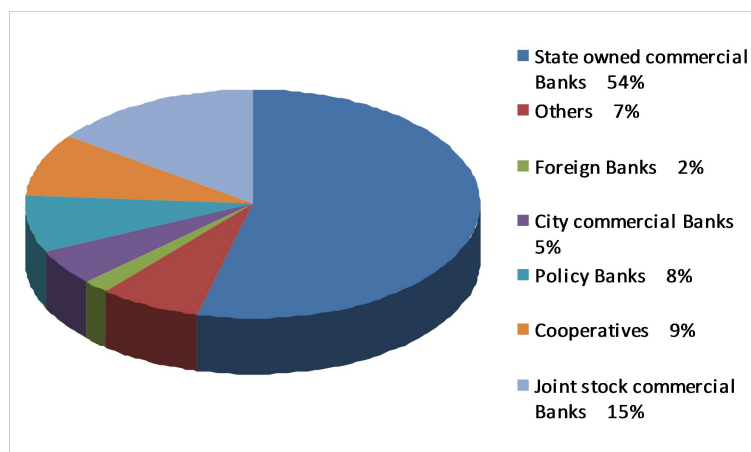
There are 27 rural commercial banks in China, and their business operation is aimed at serving agriculture, rural areas and farmers' personal banking (CBRC, 2010). Rural commercial banks are described as providing diversified, comprehensive, high-quality credit service for local economies (CBRC, 2009). The Chinese Government has issued a series of measures to reform the rural financial system in order to support local economies through the development of small and medium enterprises. As a result, the scale of rural commercial banks is continuing to expand (China Rural Commercial Bank Report, 2008).

Hutton (2007) raises the argument of bank finance and private ownership as:

“In an economy where the only effective source of external capital is bank finance and where only 25 per cent of the shares of banks can be owned by non-state shareholders, there are further limits on the ability of even 'let-go' small SOEs to operate outside the boundaries set by the party-state. China's approach to private ownership means that attempting to assess how much of China is public and how much private is a fool's errand because it cannot capture how the party is trying to develop Leninist Corporatism” (Hutton, 2007, p.149).

China's entry into the WTO in 2001 created opportunities for foreign banks. They are increasing their presence, though the banking sector remains dominated by the state-owned commercial banks (Yao and Yueh, 2008). China released the *Rules for Implementing the Regulations Governing Foreign Financial Institutions* in the People's Republic of China in January 2002. Foreign financial institutions have been permitted to provide foreign currency services to Chinese enterprises and individuals, and to provide local currency business to all Chinese clients, since the end of 2006. Moreover, some of the foreign banks were allowed to issue bank cards in China.

Figure 6-2 China Banking Industry Share by Assets



Note: This pie chart highlights the percentage of the total assets for different classifications of banks in China in 2004. Source: Adapted from KPMG (2004, p. 4).

KPMG's financial services report (2009) states that China's banking sector is massive. The pie chart in Figure 6-2 shows that the big-four state-owned commercial banks hold over half of China's banking assets, and the 12 fast growing joint-stock commercial banks together hold 15 percent of assets. However, China's 112 city commercial banks' total assets only account for over five percent of the Chinese banking sector's assets. Following this explaining of the meanings of the different categories of banks in China, the subsequent sections will discuss the details of the CSR guidelines which are relevant to the banking sector; and then an analysis of

banks' disclosures follows.

6.3 The Regulatory and Legal Framework of CSR in China

6.3.1 CSR, Company Law and Corporate Governance

There are many governmental and other regulatory CSR initiatives in China which are encouraging Chinese companies to implement explicit CSR activities, including the producing of CSR reports, in order to enhance Chinese organizations' ability to compete in the global market and develop company brands (Levine, 2008). For example, sustainability/CSR principles are now enshrined in the Company Law of the PRC (CSRC, 2001), and the corporate governance codes of the Shanghai and Shenzhen stock exchanges address CSR issues. These initiatives cover a wide range of companies, including financial institutions. In addition, sector specific guidelines on CSR for the banking sector have been issued by the China Banking Regulatory Commission and the China Banking Association.

A major governmental initiative on Chinese CSR took place in 2001. In January 2001, Chapter 6 of the new Code of Corporate Governance for Listed Companies in China (CSRC, 2001) was issued by the China Securities Regulatory Commission (CSRC). It states that:

“ the Economic and Trade Commission called on companies to take into account all stakeholders' interests and to attend to the welfare, environmental protection and public interests of the community in which it resides, and shall pay attention to the company's social responsibilities” (CSRC, 2001, p. 65) (This is an extract from the English version of this publication).

Another major governmental initiative relating to CSR development was the revision of the Company Law of the People's Republic of China which took effect on January 1, 2006. This revision plays a significant role in promoting development of the social

responsibility of Chinese enterprises. It marked the first time that company law clearly stated that enterprises have social responsibilities. The range of amendments to the company law made at that time was very wide and the content was very rich. For instance, the amended law not only gave special emphasis to the internal interests of shareholders and workers, but also noted that companies have an important social impact on the public interest and the orderly functioning of the market economy. Therefore, it made clear that, in addition to having responsibilities for the economic benefits of the company and its shareholders, directors and supervisors must also bear certain social responsibilities. Chapter 1 Article 5 of the Code of Corporate Governance of the Company Law requires companies to comply with “social morality and business morality” and to “bear social responsibilities.” Article 17 requires a company to “protect the lawful rights and interests of its employees, conclude employment contracts with the employees, and to buy social insurance, to strengthen labour protection so as to realize safe production” and to “reinforce the vocational education and in-service training of its employees so as to improve their personal quality” (Code of Corporate Governance of Company Law, 2006). This revision of the company law in China has arguably played a significant role in promoting the development of social responsibility in Chinese enterprises, and in particular has created a framework which is conducive to the creation of other regulatory guidelines on CSR.

6.3.2 Chinese CSR Guidelines Influencing Companies in General and Banks in Particular

A number of CSR guidelines for the financial sector have been formulated by Chinese regulatory institutions since 2006. In chronological order, the Shenzhen Stock Exchange (SSE), the China Banking Regulatory Commission (CBRC), Shanghai

Stock Exchange (Shanghai Exchange), and the China Banking Association (CBA) have all formulated guidelines that emphasize the importance of corporate social responsibility and reporting issues. Each of these institutions recommends, as part of compliance with their guidelines, the production of reports annually (Levine, 2008). In this research sample, there are 7 CSR reports which make explicit reference to more than one set of guidance (see Table 7), including the GRI, Shanghai or Shenzhen Stock Exchange listing requirements and the China Banking Association guidelines.

Table 6- 1 Guidelines Overview

Name of the Institution Issuing the Guidelines	Applicable to	Year of Release
Shenzhen Stock Exchange (SzSE)	Listed Companies	2006
China Banking Regulatory Commission (CBRC)	Banks and other financial institutions	2007
Shanghai Stock Exchange (SgSE)	Listed Companies	2008
China Banking Association (CBA)	Banks and other financial institutions	2009

Note: This table lists existing CSR Guidelines from Chinese Regulatory Bodies. ‘Applicable to’ represents the type of industry that the guidelines apply to, it may only be for financial institutions or for all the listed companies in the stock exchanges. ‘Release year’ relates to the particular year in which the guidelines were issued.

6.3.3 The CSR Guidelines from the Shenzhen Stock Exchange

The Shenzhen Stock Exchange issued "*Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies*" on September 25, 2006. The guidelines were formulated in accordance with Company Law, the Securities Law³⁰ and other laws, administrative regulations and the rules of competent authorities (Shenzhen Stock Exchange, 2006). The goal of the Shenzhen Stock Exchange guidelines is to implement a “scientific outlook on social development” which

³⁰ Securities law is the law for trading in the stock exchange market.

followed President Hu Jintao's call for "scientific development". The social responsibilities defined in the guidelines refer to the obligations which listed companies should be responsible for: these include social development, the natural environment and resources. In addition, companies are required to report to interested parties which include their shareholders, creditors, employees, customers, consumers, suppliers and communities (Shenzhen Stock Exchange guidelines, 2006; Levine, 2008). The guidelines require listed companies to consider the interests of their creditors, and state that corporations should not sacrifice creditors' interests in order to maximise shareholder value; further, companies must provide creditors with access to financial and operational data (Liang and Useem, 2009). The guidelines aim to protect the environment, to advance stakeholder interests and also to encourage companies to regularly assess their performance. The guidelines emphasise "Environmental Protection and Sustainable Development", "Institutional Building and Information Disclosure". They state that companies should establish a system of environmental protection; if a company's pollution emissions exceed national or regional standards, it should file reports and pay a fine properly. In addition, the Shenzhen Stock Exchange guidelines discuss the importance of public relations and social welfare services, in order to encourage business units to designate personnel to develop and sustain strong company-community relationships (Shenzhen Stock Exchange, 2006; Levine, 2008). In summary, the Shenzhen Stock Exchange recommends that the listed companies should follow the CSR guidelines; and the business activities should abide by the law; abide by business ethics and safeguard the legitimate rights and interests of consumers, protect the health and safety of workers, commit to protecting the environment and natural resources, and establish social welfare services.

The recommendations on information disclosure in the *Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies* (SZSE, 2006) stated that “companies shall, as required by these instructions, perform their social responsibilities, make regular evaluation and issue voluntary disclosure on the performance” (Shenzhen Stock Exchange Article 6, 2006). It is also recommended that “companies shall fulfill their information disclosure obligations in strict accordance with laws, regulations, rules and exchange’s rules” (Shenzhen Stock Exchange, 2006, Article 9), because Shenzhen Stock Exchange believes that “voluntary disclosure is advocated with respect to information that may have an impact on the decision-making of shareholders and other investors; and selective disclosure is prohibited (SZSE Social Responsibility Instructions, 2006, Ch 1). These instructions also include a specific section for information disclosure which states that:

“ companies may release their social responsibility reports along with their annual reports; the social responsibility report shall include, but not be limited to: (1) implementation of social responsibility relating to employee protection, impact on the environment, product quality and community relationship; (2) assessment of implementation of these instructions and reasons for the gap, if any; and (3) measures for improvement and the timetable” (SZSE Social Responsibility Instructions, 2006, Ch 7, p.3)³¹.

6.3.4 CSR Guidelines from the China Banking Regulatory Commission (CBRC)

The China Banking Regulatory Commission (CBRC) issued CSR guidelines to all banking institutions in 2007, in order to protect the interests of depositors and the wider community (CBRC CSR Guidelines, 2007, p.1). The CBRC explains why CSR reports from the banking sector are increasingly important to all stakeholders, and society as a whole in its CSR guidelines (CBRC, 2007). CBRC states that banks can play a key role and influence society through CSR and through CSR reporting (CBRC

³¹ The disclosure elements from Shenzhen Stock Exchange were cited from the original English version of the Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies.

Guidelines, 2007, p.3).

The CSR guidelines from CBRC contain four categories: (1) provide education to financial consumers; (2) bring financial knowledge to rural areas; (3) support charities and the development of poor areas; (4) urge banking institutions to fulfil social responsibility. The guidelines recommend banks to comply with the 10 basic principles from the United Nations Global Compact.

The Ten Principles are described by the UN as follows:

(1) Human Rights

“Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses.

(2) Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation.

(3) Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of

environmentally friendly technologies.

(4) Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery” (The United Nations’ Global Compact, 2014).

Moreover, on the issue of environmental policies, the CBRC issued extra Guidelines on Energy Saving and Emissions Reduction; these require banks to consider the national economic structure adjustments³² when they make financial decisions (CBRC, 2007). Furthermore, the CBRC’s Shanghai office issues CSR guidelines which require banks incorporated in Shanghai city to submit the previous year’s annual CSR report by the end of each June (CBRC, 2007; Levine, 2008).

6.3.5 CSR Guidelines from the Shanghai Stock Exchange

In 2007, the Shanghai Stock Exchange identified several problems from its listed companies’ corporate social responsibility behaviour. For instance, it was noted that state-owned enterprises still thought that social responsibilities should be shifted to public agencies (Liang and Useem, 2009). Moreover, many companies’ executives were judged to be failing to fulfil their financial obligations to their owners. Furthermore, under huge pressures for rapid growth, many companies were neglecting environmental issues, safe working conditions, and matters of product quality (Liang and Useem, 2009). One year after, in 2008, the Shanghai Exchange issued an announcement to strengthen the CSR performance of listed companies. The Shanghai Exchange formulated two documents: (1) a notice on Strengthening Listed

³² National economic structure adjustments mean that the government uses economic, legal and necessary administrative means to change the existing economic structure, in order to adapt to the process of productivity development (CBRC, 2007).

Companies' Assumption of Social Responsibility (Shanghai CSR Notice) and (2) the Guidelines on Listed Companies' Environmental Information Disclosure (Shanghai Environmental Disclosure Guidelines). According to these later guidelines, companies should fulfil their social responsibility by addressing stakeholders' interests, assessing their own performance and promoting sustainable economic development (Shanghai Stock Exchange, 2008; Levine, 2008).

There is no big difference between the CSR guidelines of the Shenzhen Stock Exchange and that of the Shanghai Stock Exchange (Syntao, 2010). However, Levine (2008) has discussed that the Shanghai Stock Exchange raised a new concept of "social contribution value per share (SCVPS)" to effectively measure the effects and value of those listed companies which are encouraged to engage in CSR disclosure. SCVPS is calculated by adding together the tax revenues paid to the state, salaries paid to employees, loan interest paid to creditors (including banks), and donations to, and other value for stakeholders, then deducting any social costs that arise from environmental pollution and other negative factors (Levine, 2008). Companies may choose to disclose their SCVPS calculation in their annual CSR reports. The Shanghai Stock Exchange provides encouragements to companies to increase their awareness about CSR and also to develop strategic CSR plans for their operations. The Shanghai Stock Exchange website is used to make disclosure about the listed companies' CSR activities, goals and achievements; in addition, it hosts the annual CSR reports which are published by listed companies (Shanghai Stock Exchange, 2008).

Such disclosure, the notice explains, is in order to allow the public to understand the contributions which are created by companies to their various stakeholder groups and

society. Moreover, it states that the CSR reports should have regard to the Securities Law of the People's Republic of China. The notice also emphasises that companies can produce their CSR reports according to their individual characteristics; however, at least, each should contain the following aspects:

- (1) "The performance of assisting society's sustainability development, such as: the protection of employees' health and safety; support to the local community; and product quality control.
- (2) The performance on environmental protection, such as: prevention and reduction of environmental pollution; water and energy saving; and the protection of biological diversity.
- (3) The performance of encouraging economic sustainable development, such as: creating value for customers by the company's products and services; create more job opportunity and further development for employees; and creating higher economic return to shareholders" (SHSE CSR Notice, 2008, Section 5, p.1).

The Shanghai Stock Exchange issued *Sub-Guidelines on Listed Companies' Environmental Information Disclosure 2008* (Shanghai Environmental Disclosure Guidelines) to complement the CSR Notice. It states that all listed companies should disclose the following environmental information in the annual CSR report based on the company's characteristics: (1) the principles of environmental protection, and the objectives and achievements of the annual environmental protection; (2) the annual consumption of environmental resources; (3) environmental investment and technology development; (4) the category, quantity or concentration of the company's pollutants; (5) the construction and operation of environmental protection facilities; (6) waste treatment and disposal in the production process; (7) details of voluntary agreements with official environmental protection departments; (8) awards received from environmental protection associations; and (9) voluntary publishing of any other environmental information (SEDG, 2008, p.1). In addition, the Shanghai Stock Exchange emphasises that "the company's person in charge will receive serious punishment if the company does not timeously and accurately disclose the required

environmental information”³³.

6.3.6 CSR Guidelines from the China Banking Association (CBA)

The China Banking Association (CBA) published Guidelines on Corporate Social Responsibility for Banking Financial Institutions in China in 2009; it advised all banks to produce a CSR report for submission to the CBA by the end of June 2009 and annually thereafter.

The guidelines are voluntary guidelines and not law. However, it is possible that these guidelines may become legislation applicable to the financial institutions in the future (China Banking Association, 2009). The guidelines state that they were prepared in accordance with Company Law, Commercial Banking Law, the Banking Supervision Law of the People's Republic of China and the Articles of Association of the China Banking Association (CBA, 2009).

The CBA issued the guidelines in order to promote comprehensive corporate social responsibility (CSR) programmes within the Chinese banking system, and to improve sustainable development (CBA, 2009). The guidelines apply to “Banking Financial Institutions” which includes policy banks, government state owned banks, commercial banks, foreign banks, and other financial institutions registered in China to attract public deposits such as financial assets management companies; micro-finance companies are also expected to comply (China Banking Association, 2009). There are three key elements in the guidelines: Economic Responsibility, Social Responsibility,

³³ The disclosure aspects of the Guidelines and the elements of the Sub-Guidance from Shanghai Stock Exchange were translated from the Chinese to English by the author. There is no English version of the guidelines from the Stock Exchange.

and Environmental Responsibility. However, the recommendations on information disclosure are only introduced in Chapter 8 of the Economic Responsibility section of the guidelines which states obligations around “strictly managing related-party transactions, fulfilling obligations for information disclosure, ensuring the rights of all shareholders, and creating value for shareholders” (CBA Guidelines, 2009, p. 3).

The CBA (2009) notes that banks will receive many reputational benefits when they produce CSR reports which comply with its guidelines, including that the CBA will report to the China Banking Regulatory Commission about the banks’ CSR reports, mention them in the media and conferences, and release the bank’s CSR information on the China Banking Association's website (China Banking Association, 2009).

All of the guidelines, instructions and documents which are explored above have significantly influenced CSR development among listed companies. According to the research report from the *Research Center for Corporate Social Responsibility Chinese Academy of Social Sciences* in January 2013, number of Chinese CSR reports increased from 32 in 2006 to 1006 in 2012. (CASS, 2013).

Table 2 below summarizes and lists the key elements of each of the Chinese CSR guidelines discussed above (in sections 6.3.3 to 6.3.6), which are relevant to the banking sector. The Shenzhen Stock Exchange (SSE), the China Banking Regulatory Commission (CBRC), Shanghai Stock Exchange (Shanghai Exchange), and the China Banking Association (CBA) guidelines are listed in Table 3 in chronological order. The elements which emphasise information disclosures are highlighted in bold italics.

Table 6-2 Summary of the key elements of each of the Chinese CSR Guidelines which have reference to the banking sector.

Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies (Year 2006)							
General Provisions	Protection of the Interests of Shareholders and Creditors	Protection of Employee Interests	Protection of the Interests of Suppliers, Customers and Consumers	Environmental Protection and Sustainable Development	Public Relations and Social Welfare Services	Institutional Building and <i>Information Disclosure</i>	Supplementary Provisions
China Banking Regulatory Commission (CBRC) CSR Guidelines (Year 2007)							
The Concept of Corporate Social Responsibility		10 Principles of Corporate Social Responsibility		Significant Meaning on Implementing Social Responsibility	<i>The Structure and Key Elements of CSR report</i>	The Situation of Current CSR Reports from Banking Sector	The Requirements on CSR reporting to Big 5 Banks
Shanghai CSR Notice (Year 2008)							
Protection of the Interests of Stakeholders, Social and Environmental Issues	Set up CSR Strategy	<i>Disclose CSR Practice and Achievements in the Company's Annual Report on SSE Website</i>	<i>Disclose the Annual Social Contribution Value per share in the CSR Report</i>	<i>Disclosure Elements: Protection of the Interests of Shareholders, Employees and Customers, Products Quality Control, Environmental Protection and Sustainable Development</i>	Supply Documents	Considered to be national economical pillars	Later Changes on Guidelines
<i>Shanghai Environmental Disclosure Guidelines</i>							
China Banking Association (CBA) Guidelines (Year 2009)							
<i>Economic Responsibility</i>			<i>Social Responsibility</i>			<i>Environmental Responsibility</i>	

Explanation: This table displays the main corporate responsibilities in each CSR guidelines or notice from the Chinese local institutions. There are no English versions of the CBRC's CSR Guidelines and the Shanghai CSR Notice, therefore, the elements of these two guidelines are translated from the Chinese version. Those aspects of the CSR guidelines which relate to disclosure are shown in bold and italics.

6.4 Sustainability Reporting Guidelines & Financial Services Sector Supplement from GRI

As discussed above, there are a number of sets of CSR guidelines or frameworks which exist for financial institutions within China, however, the very nature of the Global Reporting Initiative (GRI) means it has international acceptance (GRI, 2008; Farneti and Guthrie, 2009). The GRI was formed in 1997 by the Coalition for Environmentally Responsible Economies (CERES) in collaboration with the Tellus Institute (GRI, 2010). It is a network-based organization which has initiated the development of the widely used sustainability reporting framework and, is committed to its continuous improvement and application worldwide (GRI, 2010). The GRI reporting framework sets out the principles and indicators which can be used for measuring and reporting economic, environmental, and social dimensions of organizations' activities, products and services (Brown et al, 2009). Since its inception in 1997, the GRI has become a leading template for voluntary sustainability reporting by companies (Brown et al., 2009). The G3 guidelines³⁴ were launched in 2006 and are the foundation of the GRI Sustainability Reporting Framework. The guidelines outline core elements for reporting and are relevant to all organizations regardless of size, sector, or location. In addition, they outline a disclosure framework that organizations can voluntarily, flexibly, and incrementally adopt. There are two parts in the G3 guidelines: (1) "Reporting Principles and Guidance" which outline the principles to define report content, quality and the guidance on how to set the report boundary; (2) "Standard Disclosures" which contain the disclosure elements of the organization's strategy and profile, management approach and performance indicators (GRI G3, 2010).

³⁴ The G3 guidelines were that applied for the duration of this study and were referred to in some of the reports that were analysed. More recently in May 2013, new "G4" guidelines were issued.

Since the first version of the GRI's Sustainability Reporting Guidelines was launched in 2000, this core document of its Reporting Framework, has been updated and developed to follow the pace of continuous changes.³⁵ In addition to the general GRI guidelines, GRI also issues sector supplements for particular industries. As with other such supplements, the Financial Services Sector Supplements (FSSS) are not intended as a replacement for the more general G3 framework but they do address the more specific issues in the financial services industry. Table 3 provides a summary of the standard disclosures which the GRI recommends be used in the financial services sector reporting. There are financial services sector specific disclosures in management approaches (FS1 to FS12, FS15) and on product responsibility and society performance indicators (FS13, 14 and 16); specific commentary on G3 economic disclosure; specific commentary on G3 economic performance indicators (EC1); in addition, there is further guidance for specific commentary in the environmental section of emission, effluents, and waste (EN16 and EN22); and on G3 labor disclosure on management approach and human rights (HR1) (GRI PG & FSSS,

³⁵ The GRI's reporting guidelines are designed to be applicable to all enterprises and organizations, large and small, all kinds of fields all around the world. Both general and specific standard disclosure items include Economic Category with aspects of economic performance, market presence, indirect economic impacts and procurement practices, Environmental Category with aspects of material, energy, water, biodiversity, emissions, effluents and waste, products and services, compliance, transport, overall, supplier environmental assessment and environmental grievance mechanisms, and Social Category with sub-categories of labor practices and decent work, human rights, society and product responsibility (GRI, 2014).

GRI released a specific overview of changes in Standard Disclosure from G3 to G4 (GRI, 2013), which provides direct analysis of the development of the Reporting Guideline. According to the legend shown in the document, firstly, there are two articles, about Organizational Profile and Report Parameter, respectively in two sections of G3 Standard Disclosure deleted in G4. Secondly, three categories of economic, environmental and social in specific standard disclosures on management approach are moved to Guidance in G4. Thirdly, approximately forty-five points of new standard disclosure and data points are added in G4.

The innovation of G4 proves to be more focused on the sustainability and flexibility by providing measures of materiality test to simplify the information disclosure procedure (GRI, 2014). Compared to G3 and G3.1, the In Accordance criteria in G4 has replaced the old Application Level Check criteria to better serve all the enterprises which can either choose the core or comprehensive disclosure option. This simplification is beneficial for small and medium enterprises to adopt GRI Reporting Guideline, while G4 has lowered the cost on collecting and counting different aspects of information because it only requires all the enterprises to reveal the sustainable information of their most significant material aspect.

2008).

According to GRI (2008) the reasons for developing a supplement for the financial services sector are: (1) the financial sector is facing a high level of expectation from stakeholder groups with regards to transparency on its sustainability impacts; (2) reporting in the sector is increasing year on year; (3) sector-specific themes are not covered in the G3 Guidelines; (4) manifest interest of the sector in developing a supplement; (5) potential for affecting sustainability impact through more effective reporting (GRI website, 2010).

In addition to the standard disclosures in Table 4, all G3 reports must contain a GRI Content Index to alert readers to where to find the standard disclosures in the report (GRI, 2006, p. 22). Furthermore, companies which comply with the GRI G3 Guidelines in their sustainability report are required to disclose the application level of the GRI G3 Guidelines used. The application level ranges from A to C³⁶ with, in addition; a 'plus' available for each classification if the report includes a third party assurance statement. The more comprehensive a sustainability report is, the higher the application level; with A+ reflecting a sustainability report that has encompassed all the core and elective requirements under the GRI G3 Guidelines and includes an assurance statement (GRI, 2010). GRI (2010) states that from 1 January 2010, reporting with the Financial Services Sector Supplement will be obligatory for financial services organizations to be recognized as GRI application level "A" reporters.

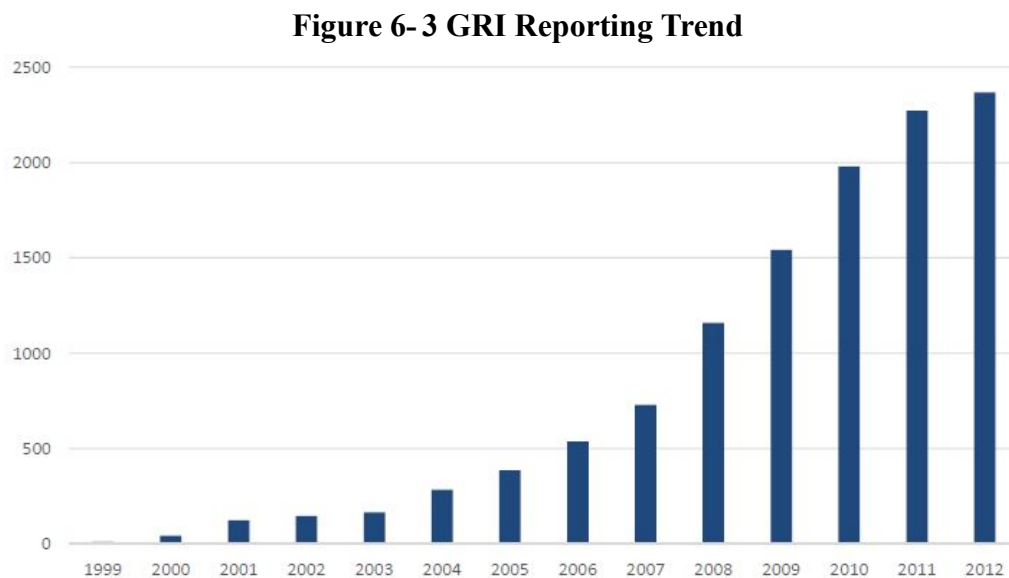
³⁶ It may be noted that, under the G4 guidelines the application levels and the distinction between core and elective indicators have been discontinued.

Table 6-3 Summary of the GRI Sustainability Reporting Guidelines & Financial Services Sector Supplement (2008)

GRI Sustainability Reporting Guidelines & Financial Services Sector Supplement							
Strategy and Profile	Product and Service Impact (FS1 to FS16)	Economic Performance (EC1 to EC9)	Environmental Performance (EN1 to EN30)	Social Performance			
				Labor Practices and Decent Work (LA1 to LA14)	Human Rights (HR1 to HR9)	Society (SO1 to SO8)	Product Responsibility (PR1 to PR9)

Explanation: This table provides a summary of GRI Sustainability Reporting Guidelines & Financial Services Sector Supplement which were formulated in 2008. It contains the key disclosures from the general G3 framework and the financial services sector-specific disclosures, performance indicators, and commentary. The individual sub-indicators under each key disclosure indicators are listed in appendix 6.1.

The GRI annual report (2012) stated that 95 percent of the 250 biggest companies in the world report their sustainability performance, with 80 percent of these companies using the GRI Guidelines. This statement was made according to an international study released by KPMG in November 2011 (GRI Annual Report, 2012). Moreover, the database of Figure 6-3 below from GRI reporting statistics at the global conference on Sustainability and Reporting (2013) shows that the number of reports which use the GRI Guidelines increased from around 50 to 2300 from year 2000 to 2012.

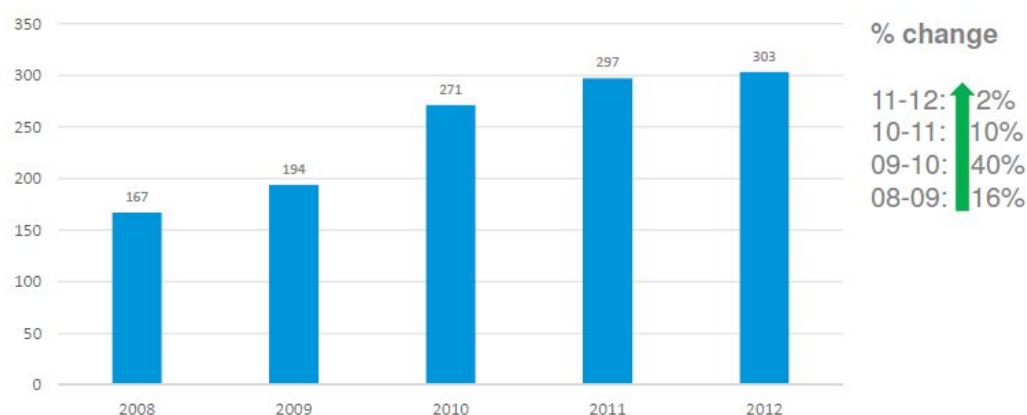


Note: This figure shows the GRI reporting trend from 1999 to 2012. It is adopted from GRI reporting statistics at the global conference on Sustainability and Reporting (2013).

In addition, GRI reporting statistics (2013) also disclosed figures to show the financial services sector trend from 2008 to 2012. Figure 6-4 shows that there were 167 Sustainability Reports which were published by the financial services sector in 2008. The number of the reports kept increasing, and reached 303 in 2012. The percentage of increasing changes shows that the reports' numbers increased markedly by 29%

from 2008 to 2009, but the numbers had become more stable in the recent years 2011 to 2012.

Figure 6- 4 GRI Financial Services Sector Reporting Trend: 2008 to 2012



Note: This figure shows the GRI Financial Services Sector reporting trend from 2008 to 2012. It is adapted from the GRI reporting statistics at the global conference on Sustainability and Reporting (2013).

6.5 Data Selection and Preparation

6.5. 1 Bank Details

This chapter focuses on the 19 banks which have published CSR reports up to 2009, all of which have been selected for content analysis in this research. The institutions comprise: 1 policy bank, 5 state-owned commercial banks, 7 joint-stock commercial banks, 4 city commercial banks (joint-equity), and 2 foreign commercial banks. These banks have been chosen from over 150 existing banks in China, because they have all published corporate social responsibility reports; as the analysis will show these reports comply with varying sets of CSR guidelines.

In the selected 19 banks, 15 are listed banks (expressed by Yes in Table 6-4): these comply with at least one of China's stock exchange's guidelines, GRI guidelines, or the China Banking Association guidelines. Some of the CSR reports are complied

with more than one guideline from different associations. There are 4 banks which are not stock exchange listed (expressed by No) but which published CSR reports apparently wholly voluntarily. The following sections indicate the years of publication of CSR reports by the 19 banks; they also provide an analysis of the different CSR guidelines adopted by these banks.

Table 6- 4 Summary details of the 19 banks (ranked by size of the bank)

Bank Name	Size in 2009 (RMB Hundred Million)	Nature of the Bank	Origin	Listed?
ICBC	RMB 117,850.5	Government State-Owned	D	Yes (SH)
China Construction Bank	RMB 102,359.8	Government State-Owned	D	Yes (SH)
Agricultural Bank of China	RMB 88,825.8	Government State-Owned	D	Yes(SH)
Bank of China	RMB 87,519.0	Government State-Owned	D	Yes (SH)
China Development Bank	RMB 38,212.0	Policy Bank	D	No
Bank of Communications	RMB 37,092.8	Government State-Owned	D	Yes (SH)
China Merchant Bank	RMB 20,679.4	Joint-Stock Commercial Bank	D	Yes (SH)
China Citic Bank	RMB 17,750.3	Joint-Stock Commercial Bank	D	Yes (SH)
China Industrial Bank	RMB 17,148.0	Joint-Stock Commercial Bank	D	Yes (SH)
Mingsheng Bank	RMB 14,263.9	Joint-Stock Commercial Bank	D	Yes (SH)
HSBC	RMB 1,620.0	Foreign Commercial Bank	F	No
HuaXia Bank	RMB 9,416.9	Joint-Stock Commercial Bank	D	Yes (SH)
Shanghai Pudong Development Bank	RMB 9,149.8	Joint-Stock Commercial Bank	D	Yes (SH)
Shenzhen Development Bank	RMB 5,878.8	Joint-Stock Commercial Bank	D	Yes (SZ)
Beijing Bank	RMB 5,335.0	City Commercial Bank (Joint-Equity)	D	Yes (SH)
Citibank China Group	RMB 1,138.0	Foreign Commercial Bank	F	No
Ningbo Bank	RMB 2,097.6	City Commercial Bank (Joint-Equity)	D	Yes (SZ)
Nanjing Bank	RMB 1495.6	City Commercial Bank (Joint-Equity)	D	Yes (SH)
Chongqing Bank	RMB 277.0	City Commercial Bank(Joint-Equity)	D	No

Note: This table orders the 19 banks by the size of the total assets. Standardised data presentation on the size of the bank since 2009 relates to their total asset in RMB from the bank's CSR report or annual report; in addition, the total assets of the two foreign banks are converted from USD to RMB. "Nature of the bank" refers to the CBRC classification of the bank; origin distinguishes foreign banks from Chinese domestic banks; and whether it is listed gives an indication (yes or no) of its listed status on the Shanghai or Shenzhen stock exchanges. "SH" and "SZ" relate to show the bank is listed on the Shanghai or Shenzhen stock exchanges. The current exchange rate is 1 pound equals to 10 RMB.

6.5.2 CSR Reports Overview and Different Volumes of CSR Disclosure

Table 6- 5 Summary of the Incidence of CSR reports

Bank Name	Category	2005	2006	2007	2008	2009	Total 9
China Development Bank (CDB)	PB	Nil	Nil	√	√	√	3
ICBC	SOC	Nil	Nil	√	√	√	3
China Construction Bank (CCB)	SOC	Nil	√	√	√	√	4
Agricultural Bank of China (ABC)	SOC	Nil	Nil	√	√	√	3
Bank of China (BOC)	SOC	Nil	Nil	√	√	√	3
Bank of Communications (BCOMM)	SOC	Nil	Nil	√	√	√	3
China Merchant Bank (CMB)	JSCB	Nil	√	√	√	√	4
China Citic Bank (CITIC)	JSCB	Nil	Nil	Nil	√	√	2
China Industrial Bank (CIB)	JSCB	Nil	Nil	Nil	√	√	2
Mingsheng Bank (MSB)	JSCB	Nil	Nil	√	√	√	3
HuaXia Bank (HXB)	JSCB	Nil	Nil	Nil	√	√	2
Shanghai Pudong Development Bank (SPDB)	JSCB	√	√	√	√	√	5
Shenzhen Development Bank (SDB)	JSCB	Nil	Nil	Nil	√	√	2
Beijing Bank (BOB)	CCB	Nil	Nil	√	√	√	3
Ningbo Bank (NBCB)	CCB	Nil	Nil	Nil	√	√	2
Nanjing Bank (NJCB)	CCB	Nil	Nil	Nil	√	√	2
Chongqing Bank (CQB)	CCB	Nil	Nil	Nil	√	√	2
Citibank China Group (CITI)	FB	Nil	Nil	√	√	√	3
HSBC (HSBC)	FB	Nil	√	√	√	√	4
Total number of reports issued		1	4	12	19	19	55

Note: This table provides a summary of the issue of CSR reports in the Chinese Banks. The banks are listed in order of different categories, the first one is a policy bank, from 2 to 6 are state-owned commercial banks, from 7 to 11 are commercial banks, from 12 to 18 are city commercial banks, and the last two banks are foreign banks. A “√” represents the existence of CSR reports. ‘Nil’ means that the bank did not publish a CSR report in the particular year. The total number of reports issued gives the number of the CSR reports in each year, and the total CSR reports from 2005 to 2009 are 55.

From Table 6.5, it can be seen that Shanghai Pudong Development Bank was the first, and earliest, bank to issue a corporate social responsibility report in 2005. This first CSR report from Shanghai Pudong Development Bank summarized the CSR activities from 1993, which is the year the bank was established, to 2005. The report expounded two or three cases from different branches in China to represent how the bank implemented CSR and what contribution the bank has made to poor areas and people, urban construction, national economic construction, general public, and environment.

The China Construction Bank and HSBC followed this start and published corporate social responsibility reports in 2006. The China Construction Bank (CCB) is the first government state-owned commercial bank to publish a CSR report. In the CSR report, CCB stated its responsibilities towards state, customers, shareholders, staff, and support for public services. It may be noted that the report also listed some of the banks' services and financial products launched in 2006, such as the services on personal residential mortgage loan, and the bank's new products.

The 2006 Corporate Social Responsibility report from HSBC published several sections which included support for education, protecting of the environment, ethical banking, welfare, and volunteers. It also stated that "the HSBC Board has established the Corporate Social Responsibility Committee to oversee HSBC's CSR policies worldwide" (HSBC 2006 CSR report, P.15) at the end of the report.

In 2007 a majority, 12 of the 19 banks, provided corporate social responsibility reports. Only 7 of the 19 banks failed to report in 2007, though they did report in 2008 and 2009. So in 2008 and 2009, all 19 banks in this research issued corporate social responsibility reports to the public.

Table 6- 6 Number of pages in the banks' CSR reports by year

Bank Name	Category	Years and Pages				
		2005	2006	2007	2008	2009
China Development Bank (CDB)	PB	-	-	55	63	122
ICBC	SOC	-	-	71	124	125
China Construction Bank (CCB)	SOC	-	52	99	143	143
Agricultural Bank of China (ABC)	SOC	-	-	46	121	124
Bank of China (BOC)	SOC	-	-	41	76	67
Bank of Communications (BCOMM)	SOC	-	-	34	36	39
China Merchant Bank (CMB)	JSCB	-	126	36	53	60
China Citic Bank (CITIC)	JSCB	-	-	-	68	72
China Industrial Bank (CIB)	JSCB	-	-	-	17	87
Mingsheng Bank (MSB)	JSCB	-	-	50	67	84
HuaXia Bank (HXB)	JSCB	-	-	-	37	78
Shanghai Pudong Development Bank (SPDB)	JSCB	34	36	43	50	72
Shenzhen Development Bank (SDB)	JSCB	-	-	-	6	6
Beijing Bank (BOB)	CCB	-	-	52	35	54
Ningbo Bank (NBCB)	CCB	-	-	-	27	21
Nanjing Bank (NJCB)	CCB	-	-	-	12	19
Chongqing Bank (CQB)	CCB	-	-	-	26	24
Citibank China Group (CITI)	FB	-	-	32	32	27
HSBC	FB	-	28	32	32	27
Mean number of pages		34	61	49	54	62
Total of Report Numbers		1	4	12	19	19

Note: This table provides the total page numbers in the CSR reports from the 19 banks. The categories order of the banks is same as Table 6-5. This table also disclosed the average page numbers of the total reports in the five years from 2005 to 2009.

Table 6.6 discloses a significant difference in the average page numbers of the research samples from 2005 to 2009. Moreover, the table also lists the differences in the CSR reports disclosure by number of pages from 2005 to 2009. There is only one CSR report in 2005 and this contained 34 pages. There were four reports in 2006 with average 61 pages, due to China Merchant Bank having disclosed in 126 pages its CSR report which summarized the history, development, and CSR issues from 1987 to 2006. The trend of increasing of pages can be seen from 2007 to 2009 with the average number of pages of the report increased from 49 to 62 pages.

Some of the CSR reports remained with the same numbers of pages and structure, such as Shenzhen Development Bank's which did not provide any guideline information to the public, but disclosed in just 6 pages their corporate social responsibility activity for both 2008 and 2009. Whereas ICBC, which followed the GRI guideline for all of its three reports, disclosed 71 pages in the first report, and then published more than 120 page reports for the following two years. Some of the other banks contributing to the research data also showed a significant increase in page numbers of their CSR reports. For example, Agricultural Bank of China disclosed 46 pages in their first CSR report, and then increased the pages number to 121 and 124 in 2008 and 2009. Moreover, China Industrial Bank which is one of the commercial banks, published 17 pages in the first CSR report in 2008, and then had an obvious increase in the page numbers to a total of 87 pages in their 2009 CSR report.

Compared to its peers ICBC and the Agricultural Bank of China, the Bank of China, which is one of the big five government state-owned banks prepared its corporate social responsibility report using the GRI guideline as did ICBC, but it managed to present this information in only 41 pages for 2007, and around 70 pages in the following two years, compared with ICBC's over 120 pages in each of 2008 and 2009.

The CSR reports from the China Merchant Bank shows a decrease in page numbers from 2006 to 2007, due to the 2006 CSR report being a summary of the CSR activities from the year in which the bank was established in 1987 to 2006. In that first report, the bank listed the information about many financial products, donations, philanthropy, stakeholder groups, CSR reputation, awards, and media reports from 1987.

Shanghai Pudong Development Bank, as the first Chinese bank which published a CSR report, has kept reports' page numbers as 35 to 50 from 2005 to 2008, and increased the numbers to 72 in 2009. Moreover, in the research sample, Chongqing Bank, Nanjing Bank, and two foreign banks: Citibank China group and HSBC have also kept similar sized reports in terms of page numbers. Nanjing Bank's first CSR report with a total of 12 pages. Nanjing Bank in 2008 was an appendix to the annual report; and then the bank published a separate CSR report of 19 pages in 2009. The author could see that the main structure of the CSR reports which contained

shareholder interests, social economic development, financial services, employees, and social welfare from Nanjing Bank was the same; no matter whether it was a part of the annual report or individual CSR report.

HSBC was the first foreign bank to publish a CSR report in China which was in 2006. The 4 CSR reports from HSBC from 2006 to 2009 contained a similar number of pages and with English and Chinese language in one report, but with small differences in the headings and core content of the main sections. For example, the heading of the key sections of the CSR report in 2006 were “support for education, protection of the environment, ethical banking, welfare, and HSBC volunteers”. However, the main sections of the report in 2009 had a slight change, which included “corporate sustainability, support low carbon economy, promote consumer education, and support social development”. The CSR reports reflected that the focus of the main sections from HSBC were influenced by the government direction and guiding, such as the low carbon economy which had become a core direction from the environmental regulators in China since 2009.

6.5.3 Applied Different Guidelines

Table 6- 7 Summary of different guidelines adopted by 19 banks

Bank Name	Guidelines						Listed	Category
	2005	2006	2007	2008	2009			
China Development Bank(CDB)	-	-	GRI	GRI	GRI	No		PB
ICBC	-	-	GRI	GRI	GRI	Yes		SOC
China Construction Bank (CCB)	-	N/G	N/G	SH	SH & GRI	Yes		SOC
Agricultural Bank of China (ABC)	-	-	N/G	CBA	GRI	Yes		SOC
Bank of China (BOC)	-	-	GRI	GRI	GRI	Yes		SOC
Bank of Communications (BCOMM)	-	-	SH & CBA	SH & CBA	SH & CBA	Yes		SOC
China Merchant Bank (CMB)	-	SH	SH	SH	GRI	Yes		JSCB
China Citic Bank (CITIC)	-	-	-	SH & CBA	GRI	Yes		JSCB
China Industrial Bank (CIB)	-	-	-	SH & CBA	SH & CBA	Yes		JSCB
Mingsheng Bank (MSB)	-	-	N/G	SH & CBA	SH & CBA	Yes		JSCB
HuaXia Bank (HXB)	-	-	-	SH & CBA	GRI	Yes		JSCB
Shanghai Pudong Development Bank	N/G	N/G	N/G	GRI	GRI	Yes		JSCB
Shenzhen Development Bank (SDB)	-	-	-	N/G	N/G	Yes		JSCB
Beijing Bank (BOB)	-	-	SH	SH	SH	Yes		CCB
Ningbo Bank (NBCB)	-	-	-	SZ	SZ	Yes		CCB
Nanjing Bank (NJC)	-	-	-	SH	GRI	Yes		CCB
Chongqing Bank (COB)	-	-	-	SH	SH	No		CCB
Citibank China Group (CITI)	-	-	N/G	N/G	N/G	No		FB
HSBC	-	N/G	N/G	N/G	N/G	No		FB
Total	1	4	12	19	19			
Total GRI	0	0	3 (25%)	4 (21%)	10 (52.6%)			
Total CBA	0	0	1 (8.3%)	6 (31.6%)	3 (15.8%)			
Total Shanghai Stock Exchange	0	1 (25%)	3 (25%)	10 (52.6%)	6 (31.6%)			
Total Shenzhen Stock Exchange	0	0	0	1 (5.3%)	1 (0.5%)			

Note: This table provides a summary of the guidelines which adopted by the 19 banks. ‘-’ means no report in the particular year. ‘N/G’ means that no guidelines were explicitly adopted for the report. ‘SH’ and ‘SZ’ relate to explicit mention of the CSR guidelines from the Shanghai or Shenzhen stock exchanges respectively. ‘CBA’ means that the CSR guidelines from the China Banking Association have been explicitly referred to in the CSR report. ‘GRI’ means that the CSR report refers to the GRI guidelines. The percentage represents the usage of the guidelines as a proportion of all the CSR reports issued in that year overall.

Table 6-7 provides the information of the CSR guidelines which were adopted by 19 banks in the CSR reports published from 2005 to 2009. The previous section already highlighted that Shanghai Pudong development bank was the first bank, in 2005, to issue a CSR report in China (2005), while most CSR reporting banks issued their CSR reports two years later. Three years after the first bank corporate social responsibility report was issued, i.e. by 2008, the corporate social responsibility reports were issued by all the 19 banks analysed in this thesis. However, from Table 6.7 we can see that not all the banks explicitly disclose which, if any, guidelines were adopted when the bank was preparing its CSR report. Therefore, the author used “N/G” to illustrate that no guidelines were explicitly referred to in the report, and used “Listed” to illustrate that is the bank been listed on stock exchange. The two Chinese banks are China Development Bank (CDB), which applied GRI guidelines, and Chongqing Bank (CQB), which applied Shanghai Stock Exchange guidelines even without been listed. Both of the foreign banks, Citibank China and HSBC did not express the guidelines to be applied explicitly in all of their CSR reports. HSBC only disclosed the information about who designed the company’s CSR logo, copyrights, and that the report was issued by its public affairs department. This is clear coercive isomorphic element in the reporting by listed banks with a possible mimetic or normative influence on the two non-listed Chinese banks.

Shenzhen Development Bank did not disclose any information about CSR guidelines in either of its 6 page CSR reports. It only stated information about the bank’s background, total assets, branch numbers, and CSR awards. Moreover, it also stated: “please refer to Shenzhen Development Bank’s annual report 2009 for any further information”.

For the bank, like Shanghai Pudong Development Bank, although it is the first bank which disclosed the CSR information to the public, it did not prepare the information according to any guidelines until the year of 2008. The bank added a new section as “a list of adopting GRI indicators” at the end of the CSR reports in 2008 and 2009.

China Development Bank, ICBC, Bank of China, Beijing Bank, Ningbo Bank and Chongqing Bank all stated in their CSR reports that they applied one particular guideline as the basis of their disclosures, such as GRI or Shanghai Stock exchange guidelines. For example, China Development Bank clearly listed the GRI indicator which were applied and stated that “the CSR report is disclosed according to G3 of Financial Services Sector”. Moreover, Beijing Bank applied Shanghai Stock Exchange guidelines from 2007 to 2009, and stated that its CSR report is also published on the Shanghai stock exchange website. Nanjing Bank applied one guideline in all of its CSR reports. However, it was not the same particular guidelines. Nanjing Bank applied the Shanghai stock exchange guidelines in its first CSR report, and then changed to reporting according to the GRI guidelines in 2009.

Some banks in the research data showed that they disclosed their CSR reports based on more than one guideline, such as the guidelines from the stock exchange and from the banking regulators in China. China Industrial Bank expressed this explicitly in the first section of the CSR report: “this report is prepared according with the guidelines from Shanghai stock exchange and China Banking Association” (CIB 2009, p.80). Moreover, banks like Huaxia Bank and China Citic Bank, they prepared their corporate social responsibility reports according to the guidelines of Shanghai Stock Exchange and China Banking Association before 2009 and then in 2009. These two

banks changed their reporting guideline and started to apply GRI.

China Construction Bank is one of the banks which applied more than one guideline set in its 2009 CSR report. The bank did not clearly state which disclosure standard and guidelines were deployed in its 2006 and 2007 CSR reports. The 2007 CSR report explicitly stated (CCB 2007, p.90) that “there are no generally accepted standards for reporting sustainability performance. CCB has reported this year according to its own internal reporting criteria as detailed on page 55 of the Report”. This description about the lack of reporting criteria was changed in from the 2008 CSR report, which clearly stated that “CCBC has prepared the SR Report based on SSE Guidelines”. However the CSR report in 2009 did not discuss any specific information about reporting criteria, but published the content index of GRI and report contents in accordance with the disclosure requirements of the Shanghai Stock Exchange. Moreover, the independent assurance report from KPMG clearly stated that “the Board of Directors of CCBC is solely responsible for the preparation and presentation of the SR Report, including the information and assertions contained within it, in accordance with the Global Reporting Initiative (“GRI”)’s Sustainability Reporting Guidelines (G3) and disclosure recommendations of the following guidelines issued by the Shanghai Stock Exchange” (CCB 2009, p.91).

China Merchant Bank adopted the Shanghai Stock Exchange guidelines in its first three reports, and then changed to apply the GRI, CBA and Stock Exchange guidelines in 2009. The bank’s 2006 CSR report clearly stated that “we strictly follow the guidelines from Shanghai Stock Exchange to disclose promptly, accurate, authentic, and integrated information in the report since the bank was listed on the

stock exchange market”. The 2009 CSR reported stated “this report is produced according with G3 and FSSS, also meeting the relevant requirements from CBA and Shanghai Stock Exchange”. Moreover, the report also stated that “China Merchant Bank thinks that our CSR report achieves level B of GRI.”

Based on the summary in Table 6.7, it can be seen that only China Merchant Bank explicitly expressed the implementing of the Shanghai Stock Exchange guideline in 2006. Most of the banks which published the CSR reports in 2005 and 2006 did not appear to apply and did not refer to any particular guidelines. The GRI guidelines were explicitly adopted from 2007 by three government state-owned banks, and then one of the commercial banks (the Shanghai Pudong Development Bank) started to apply GRI in 2008. From the specific proportion shows that in 2008, 4 out of 19 (21%) of the banks applied GRI guidelines; 10 banks out of the 19 (52.6%) used the guidelines based on the Shanghai Stock Exchange requirement (SH); one bank (5.3%) used the guideline based on the Shenzhen Stock Exchange Requirement (SZ); and six banks out of 19 (31.6%) prepared their reports according to the China Banking Association (CBA). Five banks used a combination of the Shanghai Stock Exchange requirement and the China Banking Association requirement. As previously noted, 19 banks published their CSR reports in 2008 and 2009. The number applying GRI increased from four to 10. Moreover, Table 6.7 shows that the usage of GRI increased from 21% to 52.6%. In contrast, the percentage of banks applying the CBA and Shanghai Stock Exchanges guidelines shows that the usage decreased. The following section will further analyse the CSR reports from 19 banks by GRI indicators from 2005 to 2009, and discuss the extent to which each specific indicator was used in 2009 by each bank. Examples of specific disclosures will also be reported.

6.6 Disclosure Index Analysis by GRI G3 Indicators

The Financial Services Sector Supplement of the GRI G3 guidelines suggests that CSR reports for the banking industry should start with strategy and profile as an introduction, and a vision to disclose to the public, followed by product and service impact, economic performance, environmental performance and social performance and product responsibility which were shown in Table 6-3. As listed in the following Tables 6-9 to 6-13, the banks that are the subject of this research will be analysed and compared according to the GRI G3 indicators as enhanced by the Financial Services Sector Supplement. There are a total of 17 CSR reports which explicitly stated that the report was produced according to the GRI guidelines from 2005 to 2009. There are 12 reports which had a table of contents of GRI disclosures at the end of the report within these 17 CSR reports; 4 of the 12 reports were published in 2008, and the other 8 reports were published in 2009. The table of contents showed that the 12 banks provided a very clear introduction of the structure for the whole report, which followed the suggested structure listed by the GRI guidelines. The following subsections will give the overall summary of variation trend of each group of indicators from 2005 to 2009; and then analyse and discuss the disclosure index of GRI indicators in each year.

6.6.1 Overall Summary

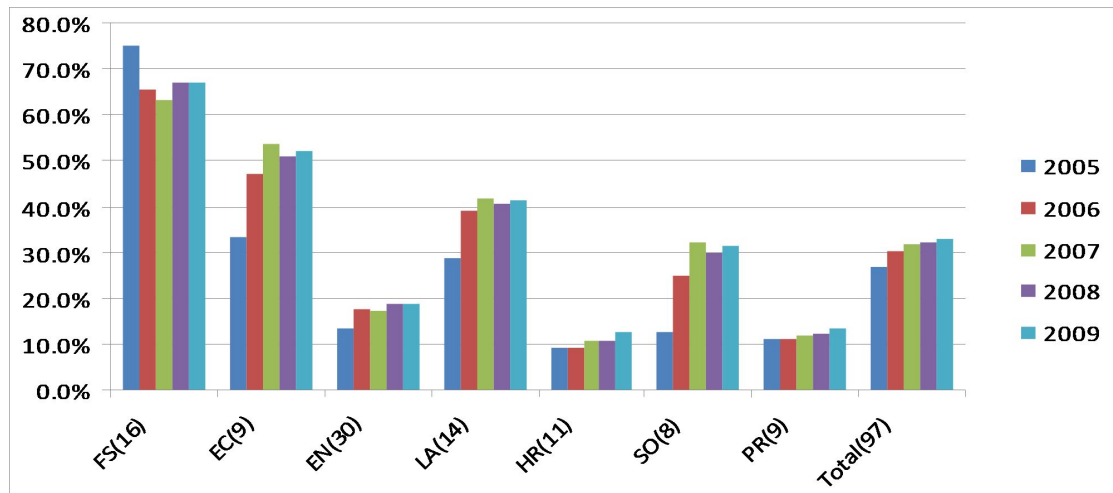
Table 6- 8 Mean Percentage from 2005 to 2009

Mean Percentage of GRI Indicators					
Year	2005	2006	2007	2008	2009
Number of Banks Reporting	1	4	12	19	19
FS(16)	75.0%	65.6%	63.0%	66.9%	66.9%
EC(9)	33.3%	47.2%	53.7%	51.1%	52.2%
EN(30)	13.3%	17.5%	17.2%	18.7%	18.7%
LA(14)	28.6%	39.2%	41.7%	40.7%	41.4%
HR(11)	9.1%	9.1%	10.6%	10.9%	12.7%
SO(8)	12.5%	25.0%	32.3%	30.0%	31.2%
PR(9)	11.1%	11.1%	12.0%	12.2%	13.3%
Total(97)	26.8%	30.4%	31.7%	32.3%	32.9%

Note: This table lists the mean percentage of GRI indicators in CSR reports from 2005 to 2009. The performance indicators are grouped by category as follows: FS (Product and Service Impact), Economic Performance (EC), Environmental Performance (EN), Labor Practices and Decent Work (LA), Human Rights (HR), Society (SO), and Product Responsibility (PR). The numbers after the indicators' name show the total of number of indicators in each category.

Table 6-8 shows the total possible number and the mean percentages of each group of indicators and the numbers of reported banks reporting between 2005 and 2009. During the period of 2005 to 2009, the number of banks reporting had been increasing from 1 to 19. Figure 6- 5 shows us the variation trend on each indicator. Figure 6- 5 in terms of the graph, showed that the total figure about the percentages occupied by each indicator generally had an increasing trend in the period of 2005 and 2009. From Table 6.8 we can see that the total number of indicators was 97 and the average aggregated percentages of each year fluctuated around 30%. The minimum percentage was 26.8% in 2005 and the maximum one is 32.9% in the year 2009. Before analysing the indicators, the author needs to emphasise that years 2005 and 2006 have such small numbers of banks that they are not really comparable, and the relative stability of disclosures started from 2007.

Figure 6- 5 Graph of Mean Percentage from 2005 to 2009



Note: This bar graph shows the mean percentage of GRI indicators in CSR reports from 2005 to 2009. The performance indicators are grouped by category as follows: FS (Product and Service Impact), Economic Performance (EC), Environmental Performance (EN), Labor Practices and Decent Work (LA), Human Rights (HR), Society (SO), and Product Responsibility (PR).

The first indicator category is FS which means “Product and Service Impact”. Table 6.8 shows that in 2005, 75% of the indicators in this category were disclosed, but this was based on Shanghai Pudong Development Bank alone since it was the only bank to issue a CSR report. The graph shows that the figure of FS decreased thereafter and then increased after 2007. As the number of banks disclosing increased in 2006 and 2007 (4 and 12 respectively), the percentages reduced to 65.6% and 63% respectively. And then, in 2008 and 2009, the total number of CSR reports was 19 and the percentages in the two years were at the same level, which was 66.9%. The FS indicator was the highest category compared with the other five indicators. The author concludes that this is the case due to the banks were more concerned about the issues which are relevant to environmental and social components which are the key indicators in the FS category. Further analysis of how the banks disclosed FS indicators will be stated in the disclosure index analysis for each year in the following sections.

The EC indicator, which stands for “Economic”, had a different trend compared with the situation on FS. It increased from 33.3% to 53.7% from 2005 to 2007. But the figure moved to the opposite direction in the year 2008 and the percentage of EC was 51.1%, and remained at a similar level in the year 2009. In terms of the bar graph, the mean percentages of EC had an increasing trend in the first three years and then fluctuated in the last two years. On consideration of EN which means “Environmental” in the performance indicators, examination shows that it contains 30 indicators which are the most in the six indicator categories. However, the percentage of EN is not the highest in the indicators group. The data increased from 13.3% to 18.7% in the period 2005 to 2009 except a little fluctuation in the year of 2007. The bar graph Figure 6-5 shows that the total trend of EN was a rising tendency. The percentage of “Labor Practice and Decent Work” (LA) indicator was almost at the same trend contrasted with Economic indicators. It also increased between 2005 (28.6%) and 2007(41.7%). However, the figure reduced to 40.7% and then it turned to the opposite direction to 41.4%.

Taking HR, “Human Rights”, into consideration, the indicators reported kept increasing from 9.1% to 12.7% during the five years. While, HR occupied 9.1% in both 2005 and 2006, the total trend of HR was a growth trend during the period of 2005 to 2009. The indicator SO, which stands for “Society” in the GRI categories, had a similar trend but at a lower level, to EC and LA. From Table 6-8 and Figure 6-5 we can see that SO indicators were at 12.5% in 2005 and then increased to 32.3% in the year 2007. The figures then remained fairly stable at about 30%. Once again the levels and the pattern can be clearly seen from the bar graph (Fig 6-5). Moreover, the mean percentages of “Product Responsibility” (PR) were 11.1% in both 2005 and

2006. After that, the data continually increased from 12.0% to 13.3% between 2007 and 2009. Generally speaking, the percentage of PR kept going upward in the five years. As can be seen in the chart, the overall trend of PR kept going upward during the five years period.

After the overall summary, the following sections will further analyse and discuss the disclosure index of GRI indicators in each year from 2005 to 2009. Some quotations translated where only a Chinese version exists will be cited, in order to illustrate the CSR activities and areas of focus from different banks in different years.

6.6.2 Disclosure Index Analysis by GRI Indicators in the 2005 CSR report

Table 6-9 Number of GRI Indicators disclosed by Category in Banks 2005 CSR Reports

Mean Percentage of GRI Indicators in 2005									
Indicator category(HPS)		FS(16)	EC(9)	EN(30)	LA(14)	HR(11)	SO(8)	PR(9)	Total(97)
Bank	Type of Bank								
SPDB	CCB	12	3	4	4	1	1	1	26
Mean (%)		75%	33.3%	13.3%	28.6%	9.1%	12.5%	11.1%	26.8%

Note: This table lists the number of GRI indicators in CSR reports 2005. Bank names are abbreviations as shown in Table 8. Under type of Bank GSO means Government State-owned Bank; CCB means Chinese Commercial Bank; and FB means Foreign Bank. Indicators are grouped by category as follows: FS (Product and Service Impact), Economic Performance (EC), Environmental Performance (EN), Labor Practices and Decent Work (LA), Human Rights (HR), Society (SO), and Product Responsibility (PR). HPS stands for high possible score.

From Table 6-9, it can be seen that SPDB (Shanghai Pudong Development Bank) was the first and only bank which published a CSR report in 2005. The report focused on disclosing the information about the Development of SPDB branches in different provinces rather than CSR implementation, especially on the environmental awareness in everyday business activities, and did not adopt any guidelines for its report. However, as stated above for this thesis, all reports were analysed according to their reporting of the GRI indicators (whether they referred to the GRI guidelines or

not). The GRI guidelines listed seven main areas of information which a bank should disclose to the public. They are: Product and Service Impact in the Financial Services Sector Supplement (FS); Economic Performance (EC); Environmental Performance (EN); Labor Practices and Decent Work (LA); Human Rights (HR); Society (SO); and Product Responsibility (PR). SPDB focused especially on the FS section as it disclosed 75% (12 out of 16) of the indicators in this category. This was the highest proportion of disclosure in any of the categories. As an example of disclosures in this category, SPDB expressed FS1 which is “policies with specific environmental and social components applied to business lines” as:

“We will always insist on making progress in green environmental protection, and towards unified operation and management activities to support environmental issues. We have implemented environmental awareness in everyday business activities by being involved in supporting electronic banking on the net, and aiming to achieve the paperless office” (SPDB CSR report 2005, p.23).

We have supported the new energy and environmental protection industries in our lending criteria. We also strictly limited lending to environmentally polluting industries and enterprises. We are supporting and supplying credit to the solar energy, wind power enterprises, chemical fuel production enterprises, and companies which have engaged in the environmental industry processing and recycling” (SPDB CSR report 2005, p.31).³⁷

Moreover, the bank described FS 4, which is “processes for improving staff competency to implement the environmental and social policies and procedures” as:

“We are emphasising paper saving activities, and increasingly using information technology to carry out daily office work and business. Continuation of the paperless idea applies in the internal operating management and is being further applied to all working activities” (SPDB CSR report 2005, p.31).

SPDB disclosed EC8, which stands for ‘development and impact of infrastructure

³⁷ Shanghai Pudong Development Bank’s CSR report 2005 is in Chinese. Therefore, the quotations have been translated by the author. Moreover, the author identified disclosures about the indicators in the CSR report, due to there being no use made of the GRI Guidelines .

investments and services provided primarily for public benefit through commercial, kind, or probono engagement’, as follows:

“Since the bank was founded, we are actively involved in supporting the poor students, helping the old people. The bank donated more than 40 million yuan, and support and participate in more than 100 charity projects. For example, establish a saving poor areas fund, the life rescue project to help poor students to go home, help build hope primary school, and organize employees to participate in volunteer activities” (SPDB CSR report 2005, p.12).

Indicator EN26 which stands for ‘initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation’ was disclosed in the SPDB 2005 CSR report as:

“The environmental issue is the important indicator on deciding whether to implement the credit project. The bank strictly controls the lending criteria of electrolytic aluminium, cement and high consumption, and high pollution industry. The bank strongly supports the environmental and ecological protection projects, such as the water environmental project in Chongqing, and sewage and garbage disposal project” (SPDB CSR report 2005, p.23).

6.6.3 Disclosure Index Analysis by GRI Indicators in 2006 CSR reports

Table 6- 10 Number of GRI Indicators disclosed by Category in Banks 2006 CSR Reports

Mean Percentage of GRI Indicators in 2006									
Indicator category(HPS)		FS(16)	EC(9)	EN(30)	LA(14)	HR(11)	SO(8)	PR(9)	Total(97)
Bank	Type of Bank								
CCB	GSO	9	5	4	6	1	2	1	28
CMB	CCB	8	5	4	6	1	2	1	27
SPDB	CCB	12	3	4	4	1	1	1	26
HSBC	FB	13	4	9	6	1	3	1	37
Mean		65.6%	47.2%	17.5%	39.3%	9.1%	25%	11.1%	30.4%

Note: This table lists the number of GRI indicators in CSR reports 2006. Bank names are abbreviations as shown in Table 6-7. Under type of Bank that GSO means Government State-owned Bank; CCB means Chinese Commercial Bank; and FB means Foreign Bank. Indicators are grouped by category as follows: FS (Product and Service Impact), Economic Performance (EC), Environmental Performance (EN), Labor Practices and Decent Work (LA), Human Rights (HR), Society (SO), and Product Responsibility (PR). HPS stands for high possible score.

In 2006, four Chinese banks published CSR reports: these were China Construction Bank (CCB), China Merchant Bank (CMB), Shanghai Pudong Development Bank (SPDB) and one foreign bank, HSBC. Table 6-10 shows that the two Chinese Commercial Banks China Merchant Bank (CMB) and Shanghai Pudong Development Bank (SPDB) had quite similar total numbers of disclosing indicators being 27 and 26 respectively, and both of them were also more focused on the Products and Service Impact section. Moreover, the mean which is at the bottom of the table shows that the HR and PR sections had the lowest levels of disclosure in terms of proportion of indicators with only 9% and 11% in 2006.

From Table 6-10, we can see that HSBC disclosed the highest number of indicators, 37 out of 97 indicators and 5% was focused on Product and Service Impact (FS). In the CSR report, disclosures related to the FS1 indicator, included:

“Meanwhile HSBC adopted high international standards, including ‘Equator Principles’, ‘Global Sullivan Principles’ ‘UN Global Compact’ and ‘UNEP Principles for Responsible Investment’ to help us categorise the degree of environmental, social and economic impact of commercial proposals” (HSBC CSR report 2006, p.12).³⁸

Moreover, HSBC also disclosed under FS1 that a:

“Forest land and forest products sector guideline was issued by the HSBC Group in May 2004. The purpose of the guideline is to ensure that HSBC’s involvement in this potentially sensitive sector is consistent with our longstanding commitment to the environment, given the apparent high environmental and social risks inherent in the forestry industry and related downstream activities” (HSBC CSR report 2006, p.13).

HSBC disclosed under FS2, which relates to “procedures for assessing and screening environmental and social risks in the business lines” that:

³⁸HSBC’s CSR report 2006 is in English. The quotations are the original text from the report.

“Ethical banking is an approval to lending and investment based on a combination of our own business principles and value, society’s expectations and, fundamentally, an assessment of risk. HSBC issued Freshwater Infrastructure Sector Guideline in May 2005. The guideline points out that freshwater is a finite and vulnerable resource, essential to sustain life, development and the environment. There will be potential risks if the group supports projects that do not deliver the anticipated sustainability benefits, or have adverse environmental and social impacts” (HSBC CSR report 2006, p.13).

Table 6-10 shows that the total number of environmental (EN) indicators which were disclosed in the HSBC report is the second highest number among the 37 indicators. For example, HSBC disclosed EN26 on “initiatives to mitigate environmental impacts of products and services” as:

“HSBC has issued specific environmental guidelines on forestry, freshwater infrastructure, chemicals and energy to guide on lending activities in these areas worldwide” (HSBC CSR report 2006, p.12).

China Construction Bank (CCB) was in the second place of total number of disclosing indicators. Its disclosures under FS1 gave more emphasis to environmental and social components which may be due to it being a government state-owned bank which is more responsible for supporting national projects. For example, CCB disclosed under FS1 that:

“Environmental protection in China has always been CCB’s concern. It is expressly stipulated in our loan policies that no loans can be granted to projects or enterprises banned by State orders or otherwise in violation of environmental regulations. On the other hand, loans to projects that are conducive to environmental protection and ecological improvement will encourage” (CCB CSR report 2006, p.12).³⁹

³⁹ China Construction Bank’s CSR report 2006 is in English. The quotations are the original text from the report.

CCB disclosed under FS4 for “improving staff competency to implement the environmental and social policies” as follows:

“With a view to protecting our environment, CCB encourages its employees and customers to participate in environmental protection activities. In Jiangsu, CCB launched a tree planting campaign for its Long Card holders and the idea received overwhelming response. In Shandong, CCB has for many years been organizing tree planting activities at the Yellow River dam to build a ‘CCB Forest’. We are determined to cope with the environmental challenge together with the society.

In order to conserve resources, CCB has been actively promoting a conservationist culture by asking its employees to begin practising conservation in the details of their day-to-day work. For example, paper is conserved by adopting such measures as electronic documents, web-based offices and duplex printing” (CCB CSR Report 2006, p.13).

CCB disclosed 6 of 14 labor practices indicators in the 2006 report, which included programmes for skills management and lifelong learning that support the continued employability of employees (FS11). It stated:

“In 2006, CCB increased its input in staff training to allow comprehensive training at multiple levels through different channels. A total of RMB265 million was spent on the staff training, 7,071 sessions of various training programmes were held and the number of employees that have received training was 402,200 person-times, representing 2.83 days for each employee” (CCB CSR report 2006, p.33).

CCB disclosed under EC8 which is “development and impact of infrastructure investments and services provided primarily for public benefit through commercial engagement” in the report as follows:

“CCB began contributing to the economic development of China in its early days. At that time, as a specialized bank, it had undertaken the responsibility of disbursing and settling funds and monitoring financial affairs for all infrastructure projects of the State. Even after its shareholding reform and public listing, it has been able to capitalise on its traditional strengths and maintain market leadership in China’s

infrastructure construction lending business. By doing so, it has been offering strong supports to the State's construction projects and has served as an uninterrupted driving force for the sound development of the national economy. As of the end of 2006, the balance of CCB's fixed asset loans amounted to RMB 1,038.24 billion, and infrastructure loans registered a year-on-year growth of 29.16%".

6.6.4 Disclosure Index Analysis by GRI Indicators in 2007 CSR report

Table 6- 11 Number of GRI Indicators disclosed by Category in Banks 2007 CSR Reports

		Mean Percentage of GRI Indicators in 2007							
Indicator category(HPS)		FS(16)	EC(9)	EN(30)	LA(14)	HR(11)	SO(8)	PR(9)	Total(97)
Bank	Type of Bank								
CDB	GSO	8	7	6	6	1	5	2	35
ICBC	GSO	7	7	9	9	1	6	2	41
CCB	GSO	10	5	4	6	1	2	1	29
ABC	GSO	9	4	4	4	1	2	1	25
BOC	GSO	13	7	6	10	3	3	0	42
BCOMM	GSO	11	4	4	5	1	1	1	27
CMB	CCB	8	5	4	6	1	2	1	27
MSB	CCB	9	4	4	4	1	1	1	24
SPDB	CCB	12	3	4	4	1	2	1	27
BOB	CCB	10	4	3	5	1	1	1	25
CITI	FB	11	4	5	5	1	3	1	30
HSBC	FB	13	4	9	6	1	3	1	37
Mean		63%	53.7%	17.2%	41.7%	10.6%	32.3%	20.4%	31.7%

Note: This table lists the number of GRI indicators in CSR reports 2007. Bank names are abbreviations as shown in Table 8. Under type of Bank GSO means Government State-owned Bank; CCB means Chinese Commercial Bank; and FB means Foreign Bank. Indicators are grouped by category as follows: FS (Product and Service Impact), Economic Performance (EC), Environmental Performance (EN), Labor Practices and Decent Work (LA), Human Rights (HR), Society (SO), and Product Responsibility (PR). HPS stands for high possible score.

Table 6-11 shows that 12 banks published CSR reports in 2007, which included six by Chinese government state-owned banks, four by Chinese commercial banks, and two by foreign banks. Whether they were the Chinese local state owned, or commercial banks, or foreign banks, all of them included a section or at least a sub-section of disclosure discussion addressing the relationships with stakeholder groups. The banks clearly appeared to be emphasizing legitimacy in terms of adapting to government priorities by disclosing their CSR activities especially on environment protection

Bank of China (BOC) and ICBC show the highest number of total indicators of 42 and 41 within the 12 banks CSR reports. The Agricultural Bank of China disclosed 25 among the total 97 GRI indicators which was the lowest number within the government state-owned category.

We can see from Table 6-11 that Bank of China (BOC) disclosed 13 of the total 16 Product and Service Impact (FS) indicators, which is the highest disclosing number within the government state-owned banks group. BOC made disclosures under FS1 and FS2 in one section as follows⁴⁰:

“We are actively carrying out the policy of environmental protection, advocating saving concept in the company, and also encouraging saving the energy activities. We are applying the concepts of green lending and saving the environment into the working and management process.

We have paid a great attention to the state energy intensive and highly polluting industries policy guidance from the government. And we strengthen the analysis and research of industry projects in order to strictly implement national industrial policies.

We are making lending decisions based on the national industrial policy, and the energy conservation and environmental protection policy from the government regulators. We actively support and encourage small and medium-sized innovative enterprise projects. We strengthen the evaluation of enterprise pollution prevention ability, and strictly control the assessment of construction projects according to our environmental policy” (BOC CSR report 2007, p22, 23)⁴¹.

FS4, which stands for “processes for improving staff competency to implement the environmental and social policies”, was disclosed in the Bank of China CSR report in 2006 as follows:

⁴⁰ Bank of China’s CSR report 2007 is in Chinese. Therefore, the extracts are translated by the author from the Chinese to English.

⁴¹ Bank of China combined FS1 and FS2 in one section in CSR report 2007, therefore in the author’s view it is worth to disclose the extracts for both indicators together.

“We encourage staff to save paper and save ink by various methods. We have set up an internal office system network, in order to store and transmit all the documents within the internal online system” (BOC CSR report 2007, p22).

Moreover, Table 6-11 shows that Bank of China disclosed the highest number of Labor Practice and Decent Work (LA) indicators among the 19 banks. It disclosed information about the programmes for skills management and lifelong learning that support the continued employability of employees (LA11) as:

“We do care about staff training programmes. We made use of the international finance research institute and domestic multiple training centers in Beijing, Shanghai, New York, London, Singapore and Hong Kong in order to provide professional and technical training. Our annual training rate is above 98%” (BOC CSR report 2007, p21).

Table 6-11 displays that the China Merchant Bank (CMB), Shanghai Pudong Development Bank (SPDB), Beijing Bank (BOB) and Mingsheng Bank disclosed similar numbers 27, 27, 25, and 24 of the total indicators of the CSR reports. CMB disclosed FS1, FS2 and FS3 of the policies and procedures for environmental and social components in business lines and monitoring clients’ environmental issues in one section and as follows⁴²:

“The bank issued guidelines for strengthening energy intensive and highly polluting industries credit risk management in July 2007, in order to support environmental sustainable development.

In order to make the company business strategy more in accordance with the requirements of national industrial policies and environmental policies from the government, the bank carried out studies and research in the areas of coal, iron and steel, nonferrous metals and power industries in 2007, due to their being the basic industries of the national

⁴² China Merchant Bank’s CSR report 2007 is in Chinese. Therefore, the extracts are translated by the author from the Chinese to English.

economy. The bank tightened the credit standards in order to ensure the output efficiency of the credit business is higher with low environmental pollution and to ensure the overall social benefits are far higher than the social cost” (CMB CSR report 2007, p.6)⁴³.

Moreover, CMB used a short sentence to describe FS4, which is the process for improving staff competency to implement the environmental and social policies, as follows “the bank started employee tree planting activities in 2005. And the bank has encouraged employees to join the tree planting in March every year” (CMB CSR report 2007, p.15).

CMB disclosed on 5 of 9 Economic indicators, for example, CMB stated under EC8 which stands for ‘development and impact of infrastructure investments and services provided primarily for public benefit through commercial, inkind, or probono engagement’ as follows:

“This year is the ninth year for the bank to support the specific poor areas of Yunnan and Wu Ding provinces. We have donated 2,926,196 Yuan cash, and 1 million Yuan worth of vehicles, computers and books to these poor areas. Moreover, we allocated 2 million Yuan funds to small business lending. Our philanthropy work obtained widespread social acceptance, and won the prize for best social supporting company 2007 in Yunan province” (CMB CSR report 2007, p.11&13).

CMB only disclosed 4 of 30 Environmental indicators in 2007. Indicator EN26 which stands for ‘initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation’ was disclosed as:

“In 2007, the bank paid great importance to the development of green lending on the basis of the basic credit control policy. The bank explored the development of green lending products, such as the

⁴³ China Merchant Bank combined FS1, FS2 and FS3 in one section in CSR report 2007, therefore author discloses the quotations for these three indicators together.

introduction of carbon trading derivatives, asset securitization under the clean development mechanism and energy efficiency loans, etc.” (CMB CSR report 2007, p.6).

In 2007, both of the foreign banks in the research sample published CSR reports, and we can see from Table 6-11 that HSBC included the highest number of total indicators in the foreign banks category. However, the author has chosen Citi Bank as a source of examples due to it having been the first CSR report of this bank in China. Citi Bank disclosed “the policies and procedures for assessing the environmental and social risks, the processes for monitoring clients’ environmental activities and mitigates environmental impacts of products and services”, which combined FS1, FS2, FS3 and EN26 into one section in the CSR report. The bank disclosed these indicators as follows⁴⁴:

“Citi was one of the founding members of the Equator Principles in 2003. We continue to be a leader in the Equator Principles network today.

Citi is working hard to reduce the environmental impact of our buildings. In 2007, we launched a global Energy Best Practices site on our Intranet that features project assessment tools, global metrics and case studies for use in all operating regions and facility types.

Citi finances environmentally responsible initiatives across China, and ensures that our transactions meet Chinese local and national laws. Citi China fully supports China’s efforts surrounding its Green Credit Policy, which was launched in 2007 by China’s Ministry of Environmental Protection (MEP), the China Banking Regulatory Commission (CBRC) and People’s Bank of China (PBOC). The Green Credit Policy aims to improve compliance with environmental regulations by restricting access to commercial credit of Chinese companies that bypass environmental assessments or fail pollution checks.

Citi China adheres to Citi’s Environment and Social Risk Management (ESRM) policy, which helps guide bankers on complex and challenging issues in a variety of transaction types, including project finance, corporate and government loans, and

⁴⁴ Citi Bank’s CSR Report 2007 is in English. The quotations are the original text from the report.

bond and equity underwritings with known use of proceeds. The policy provides a general framework that refers to the Equator Principles, the International Finance Corporation (IFC) Performance Standards, and the IFC Environmental Health and Safety (EHS) Guidelines for further guidance” (Citi Bank CSR report 2007, p.23&24).

Citi Bank disclosed the process for improving staff competency to implement environmental and social policies (FS4) as:

“Volunteerism is an important element of the Citi China culture. We have several ongoing volunteer initiatives, such as Banks in Action, a program supported by the Citi Foundation that helps university students achieve a better understanding of finance and banking in the global economy” (Citi Bank CSR report 2007, p.9).

There were 4 of 9 Economic indicators disclosed in the Citi Bank’s CSR report in 2007, for example, EC8, which measures the performance and impact of infrastructure investments and services provided for public benefit. Citi Bank disclosed under EC8 as follows:

“Citi is a leading supporter of microfinance and microenterprise development in China. In 2004, we committed a RMB10.5million grant to the Chinese Academy of Social Sciences to help establish the China Microfinance Training Center and the China Association of Microfinance. Since it opened in August 2004, the China Microfinance Training Center has provided systematic and practical training courses to more than 900 managers from microfinance institutions.

In 2007, with a grant of RMB1.05 million from the Citi Foundation, Citi China partnered with the School of Management at Fudan University to launch the Citi-Fudan SME Senior Management Training Program.

Citi China’s education programs focus on improving the quality of basic education in China, and helping to reduce urban-rural disparities. One example is the Citi-UNICEF Sister Schools Project, which provides online communication and learning for around 10,000 children in Western China” (Citi Bank CSR report 2007, p.30&31).

Citi Bank disclosed 5 of 14 Labor Practices indicators in its 2007 CSR report. For example, “the programs for skills management and lifelong learning that support the continued employability of employees” (LA11) was disclosed as:

“Citi believes that our employees should be encouraged and rewarded to achieve their own personal ambitions as well as the goals of the company. Throughout the company, employee training needs are considered during the annual appraisal and individual performance planning process. This process is used to create career development programs that are tailored to the specific needs of each business” (Citi Bank CSR report 2007, p.12).

The following two sections will display and analyse the tables of GRI indicators of 2008 and 2009. All of the banks in this research sample disclosed the CSR reports in these two years. Therefore it would be appropriate to compare the differences by the number of indicators and significant changes.

6.6.5 Disclosure Index Analysis by GRI Indicators in 2008 CSR report

Table 6- 12 Number of GRI Indicators disclosed by Category in Banks 2008 CSR Reports

Mean Percentage of GRI Indicators in 2008									
Indicator category(HPS)		FS(16)	EC(9)	EN(30)	LA(14)	HR(11)	SO(8)	PR(9)	Total(97)
Bank	Type of Bank								
CDB	GSO	13	8	7	7	2	4	2	43
ICBC	GSO	7	7	9	9	1	6	2	41
CCB	GSO	10	5	4	6	1	3	1	30
ABC	GSO	9	4	5	5	1	2	1	27
BOC	GSO	13	6	13	10	1	4	1	48
BCOMM	GSO	11	4	4	6	1	2	1	29
CMB	CCB	8	5	7	5	1	2	1	29
CITIC	CCB	12	4	4	6	1	2	1	30
CIB	CCB	10	3	5	2	1	1	1	23
MSB	CCB	9	4	4	5	1	1	1	25
HXB	CCB	13	4	5	7	1	3	1	34
SPDB	CCB	13	7	6	9	3	3	1	42
SDB	CCB	11	3	4	4	1	1	1	25
BOB	CCB	10	4	4	5	1	3	1	28
NBCB	CCB	8	4	3	3	1	1	1	21
NJCB	CCB	12	4	4	5	1	1	1	28
CQB	CCB	11	3	4	4	1	1	1	25
CITI	FB	11	4	5	5	1	3	1	30
HSBC	FB	13	4	10	6	1	3	1	38
Mean		66.9%	51.1%	18.7%	40.7%	10.9%	30%	12.2%	32.3%

Note: This table lists the number of GRI indicators in CSR reports 2008. Bank names are abbreviations as shown in Table 6-8. Under type of Bank GSO means Government State-owned Bank; CCB means Chinese Commercial Bank; and FB means Foreign Bank. Indicators are grouped by category as follows: FS (Product and Service Impact), Economic Performance (EC), Environmental Performance (EN), Labor Practices and Decent Work (LA), Human Rights (HR), Society (SO), and Product Responsibility (PR). HPS stands for high possible score.

As previously stated, there were in total 19 banks in the research sample which had disclosed their CSR reports in 2008. Table 6-12 shows that Bank of China and China Development Bank had the highest number of total indicators within the government state-owned category. Bank of China remained the bank with the highest number of indicators in Product and Service Impact (FS) and Labor Practices (LA) amongst the 19 banks.

6.6.5.1 The Disclosure of Earthquake Relief in 2008 CSR reports

The author identified the earthquake relief activities as relevant to EC8, which relates to “development and impact of infrastructure investments and services provided primarily for public benefit”. Bank of China wrote a separate section for earthquake relief and disclosed several pages of information to describe EC8. For example, it related to EC8 as follows⁴⁵:

“The Wenchuan earthquake on 12 May shocked the entire world. After the earthquake, BOC’s domestic and overseas operations and their employees donated over RMB150 million towards the disaster relief. Of this amount, about RMB78.83 million was donated by the employees of domestic branches. BOC participated in and supported a variety of social activities to raise contributions for the disaster relief. Among other events, the bank took part in the charitable auction of the China Badminton Team’s gold medals and paid RMB500,000 for the medal won by Olympic champion Lin Dan (BOC CSR report 2008, p15).

In 2008, BOC increased its contributions to poverty-stricken areas and education, supported the development of technology and the arts, participated in earthquake disaster relief, and gave back to the community through various other activities” (BOC CSR report 2008, p.22).

There are other government state-owned banks which also disclosed earthquake relief actions in their CSR report in 2008. ICBC stated it as follows:

“In May 2008, after a devastation earthquake hit Wenchuan County, institutions at levels, all the leaders and the staff in the Bank extended their helping hands to the victims. The Bank was the biggest donator among all the financial institutions, having donated RMB141.91 million in cash and RMB0.5 million in kind, and other RMB53.05 million as special CPC membership dues and RMB1.84 million as special Youth League membership dues.

At the same time, the Bank promptly issued the ‘Disaster Relief

⁴⁵ Bank of China’s CSR report 2008 is in English. The quotations are the original text from the report. The indicators were found from the content of the report based on the GRI indicators list at the end the CSR report.

Peony Co-brand Credit Cards' to the officers and soldiers participating in the rescue and relief, solving their temporary financial problems. The emergency loan approval procedures were launched immediately and RMB28.8 billion was granted in total for disaster relief and reconstruction. The affected outlets and facilities were repaired timely and 100 ATMs were dispatched to the affected areas urgently, meeting the needs of the affected population. To ensure uninterrupted call services, on the same day of the earthquake, the call center in Chengdu was transferred to the two major telephone banking host centers in Beijing and Shanghai. 'Mobile Banks' were creatively organized, and 'tent banks' and 'moveable plank houses' were established. The Bank made efforts to restore outlet services against all odds, building a financial artery for disaster relief as fast as possible" (ICBC CSR report 2008, pp.61-62).

The Chinese Commercial Banks in this research sample also disclosed information about earthquake relief in the 2008 CSR reports, such as China Merchant Bank, Shanghai Pudong Development Bank, Mingsheng Bank, and Huaxia Bank. China Merchant Bank disclosed earthquake relief activities in the first section of the report as follows⁴⁶:

"In the face of the catastrophes, the Bank, as a corporate citizen, remained committed to fighting against the acts of God with the people in China through the development of various effective measures. After the earthquake disaster occurred in Wenchuan, the bank reacted actively to the calls for action by the Central Government and the State Council by making use of the emergency fund to make donations for disaster relief and offer the necessary financial services in strict compliance with the relevant procedure stipulated by the CBRC. Up to 31 December 2008, the Bank raised an accumulated total donation amount of RMB164 million" (CMB CSR report 2008, p.1).

Shanghai Pudong Development Bank disclosed under EC8 which is relevant to the information about earthquake relief as⁴⁷:

⁴⁶China Merchant Bank's CSR report 200 is in English. The quotations are the original text from the report. But there is no GRI indicators list in the report, so the indicators were found by the author.

⁴⁷ Shanghai Pudong Development Bank's CSR report 2008 is in Chinese. Therefore, the quotations are translated by the author from the Chinese to English. The indicators were found from the content of the report based on the

“After the earthquake hit Wenchuan, Sichuan, the Bank immediately provided credit support, emergency help, and aid assistance. Chengdu Branch which is in the disaster area, undertook a lot of post disaster reconstruction work. In order to put reconstruction loan funding in place in time, the bank carried out overtime work everyday, and opened up the green channel of examination and approval relief loans ” (SHPD CSR report 2008, p.34).

Mingsheng Bank wrote a separate section of “Philanthropy and Charity” to emphasize the information about the earthquake relief, the amount of donations, and activities which had been carried out after the disaster in 2008 CSR report as⁴⁸:

“In 2008, our country experienced two major natural disasters, which were the south snow disaster and the earthquake in Wenchuan, Sichuan. Minsheng Bank reacted quickly. After the earthquake, the bank provided support and help to the disaster area immediately, and encouraged the employees to donate. The total donations to the disaster were more than RMB23 million Yuan. Moreover, the bank carried out the online banking system to gather ten banks to donate together. Minsheng Bank obtained a ‘China Charity Award’, ‘the Annual Public Welfare Enterprises’, and ‘the Most Socially Responsible Business’ awards” (Minsheng Bank CSR report 2008, p.46).

Huaxia Bank also published information about earthquake relief in a separate section entitled “Harmonious Development” as:

“The bank reacted rapidly after the Wenchuan earthquake in 2008. We established a working group on earthquake relief. The employees in Sichuan Province kept working after the earthquake in order to protect the safety of our customers’ property. We responded to the call of the China Banking Regulatory Commission to provide convenience financial services for the social public donations to the disaster area. We first proposed the fast lending way and rebuilding credit for helping the reconstruction of the disaster area” (Huaxia Bank CSR report 2008, p.24).

GRI indicators list at the end the CSR report.

⁴⁸ Minsheng Bank’s CSR report 2008 is in Chinese. Therefore, the quotations are translated by the author from the Chinese to English. The indicators were found from the content of the report based on the GRI indicators list at the end the CSR report.

6.6.5.2 Disclosure Index Analysis of Bank of China, China Merchant Bank and HSBC

After analysing EC8, which is relevant to the infrastructure investments and services provided for public benefit, the following paragraphs will analyse some banks' CSR reports by other GRI indicators and perspectives, such as 'Product and Services Impact', 'Labor Practices and Decent Work' and 'Environmental'. For example, Bank of China disclosed FS1 and FS2 in its 2008 report as⁴⁹:

“In 2008, BOC increased its contributions to poverty-stricken areas and educations supported the development of technology and the arts, participated in earthquake disaster relief, and gave back to the community through various other activities. BOC revised its Administrative Measures for Donations and gave greater discretion to tier-1 branches to make donations. During the year, BOC group donated a total of RMB138.7289 million.

In 2008, BOC continued its efforts to increase green credits and advocate green offices. While offering innovative green financial products to reduce greenhouse gas emissions and promote environmental protection.

To promote recycling, BOC offered its financial support to promote emissions reduction and environmental protection in line with the country's macroeconomic policy and sustainable development guidelines” (BOC CSR report 2008, p.51 and 55-56).

BOC disclosed LA11 which relates to programmes for lifelong learning that support employability as:

“BOC carries out the talents plan in a comprehensive way and continued to strengthen three talents team construction including operation managers, professionals and technical persons” (BOC CSR report 2008, p.48)⁵⁰.

⁴⁹ Bank of China's CSR report 2008 is in English. The quotations are the original text from the report. The indicators were found from the content of the report based on the GRI indicators list at the end the CSR report.

⁵⁰ It is necessary to state that this quotation appeared in English in the report and is reproduced despite the unusual use of English in parts.

Moreover, BOC had the highest number of Environmental indicators being 13 among the total 30 in 2008. For example, BOC stated under EN26 which is the initiatives to mitigate environmental impacts of products and services as:

“BOC has further implemented the concept of green credits in its business and restricted credit to industries working to overcapacity or operating with outdated production facilities, high energy consumption and a record of environment pollution. The bank also enhanced its support for industries with good environmental records or that make use of energy saving and emission reduction technologies. During the year, the bank also established a green credit mechanism that had been in development for a number of years” (BOC CSR report 2008, p.56).

Furthermore, Bank of China disclosed one of the indicators in Product Responsibility (PR) for the first time since 2008. It disclosed PR5 which means the practices related to customer satisfaction as:

“To cater for the growing financial service needs of personal banking customers, BOC has implemented a segmented customer development strategy and developed innovative new products and improved services based on this strategy” (BOC CSR report 2008, p.43).

Bank of China treated Economic Performance (EC) in a macroeconomic way due to it being one of the government state-owned banks which is responsible for supporting national projects. For example, BOC was the sole official banking partner of the Beijing 2008 Olympic Games. BOC disclosed EC8, which stands for development and impact of infrastructure investments and services, provided primarily for public benefit through commercial or in-kind engagement:

“In 2008, BOC increased its contributions to poverty-stricken areas and education, supported the development of technology and the arts, participated in earthquake disaster relief, and gave back to the community through various other activities. BOC revised its Administrative Measures for Donations. During the year, BOC Group

donated a total of RMB138.7289 million and the social contribution value per share” (BOC CSR report 2008, p.51).

China Merchant Bank issued a CSR report in 2007 and continued to publish a report in 2008. It disclosed FS1, FS2 and FS3 which included policies and procedures with specific environmental and social components or risks, and the process for monitoring client’s implementation of environmental and social policies as:

“In 2008, the company issued ‘Green Finance and Marketing Guidelines’ which determine the professional marketing and credit support. At the same time, we set up a green finance group in each branch responsible for setting green financial business standards, a green finance business system and the development of relevant green financial products.

In 2008, the company put the energy-intensive and highly polluting industries as key investigation areas. The bank carried out a comprehensive risk assessment on electric power, textile, printing and dyeing and other industries.

In 2007 the bank focussed attention on the environmental protection industry and carbon trading. In 2008, the bank has introduced the green lending policy to specific renewable energy industries, in order to increase support for the renewable energy industry” (CMB CSR report 2008, p.12-15).

CMB described FS4, on how to improve staff competency to implement environmental and social policies, as:

“In 2008, the bank increased advertising about saving energy, in order to build the concept of saving energy internally and being environmentally friendly” (CMB CSR report 2008, p.15).

Table 6.12 shows that both foreign banks kept disclosing CSR reports in the year after 2007. HSBC remained the bank with the highest total number of indicators with 38 among 97. It disclosed a similar number of indicators in each category. The structure of the CSR reports are also similar and it disclosed EC2 (financial implications due to

climate change) FS1 and FS2 in 2008 as:

“Environmental protection is a key component of HSBC’s CSR commitment. We believe that the conservation of the environment and natural resource is essential to our sustainability. To combat the impact of climate change worldwide, the HSBC Group launched a five year, US \$100 million partnership together with four international environmental organizations – The Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and Worldwide Fund for Nature in May 2007.

For HSBC, ethical banking is our approach to lending and investment which follows high international standards and guidelines such as the Equator Principles and the UN Principles for Responsible Investment.

In 2008, HSBC China produced and distributed a DVD as a training tool to each of its credit executives across the country to educate them about the bank’s environmental lending policies and China’s domestic environmental protection policies” (HSBC CSR report 2008, pp.8-15).

In 2008, the Chinese people and enterprises worked hand in hand to overcome severe natural disasters. After the disaster reliefs, in 2009, and following the direction from the central government, the enterprises paid, or certainly stated that they paid, great attention to climate change and environmental protection, especially for the financial industries which state that they support a low carbon economy. This phenomenon can be considered from the legitimacy, coercive and mimetic isomorphism and stakeholder perspectives. The following section will analyse the selected four banks in the research sample as examples based on different GRI indicators.

6.6.6 Disclosure Index Analysis by GRI Indicators in 2009 CSR Reports

2009 was an extraordinary year for the banking industry, due to the global financial crisis which put extreme stress on global financial institutions, and also made people and enterprises aware that it was important for a corporation to carry out a sustainable strategy to achieve long term development. Moreover, in 2009, the banks ostensibly

paid more attention to environmental protection, especially on a low carbon economy as a main focus for CSR activity. The GRI content lists from several banks such as Bank of China, ICBC and Shanghai Pudong Development Bank identified the low carbon economy as an important issue under EN26, from the GRI indicators, which means ‘initiatives to mitigate environmental impacts of products and services’.

Table 6- 13 Number of GRI Indicators disclosed by Category in Banks 2009 CSR Reports

		Mean Percentage of GRI Indicators in 2009							
Indicator category(HPS)		FS(16)	EC(9)	EN(30)	LA(14)	HR(11)	SO(8)	PR(9)	Total(97)
Bank	Type of Bank								
CDB	GSO	13	8	7	7	2	5	2	44
ICBC	GSO	7	7	9	9	1	6	2	41
CCB	GSO	10	5	4	6	1	3	1	30
ABC	GSO	9	4	5	5	1	2	1	27
BOC	GSO	13	6	13	10	1	4	1	48
BOCMM	GSO	11	4	4	6	1	2	1	29
CMB	CCB	15	7	8	10	5	3	4	52
CITIC	CCB	12	4	4	6	1	2	1	30
CIB	CCB	10	3	5	2	1	2	1	24
MSB	CCB	10	4	4	4	1	1	1	25
HXB	CCB	11	5	5	7	2	3	1	34
SPDB	CCB	8	7	6	8	2	3	0	34
SDB	CCB	11	3	4	4	1	2	1	26
BOB	CCB	10	4	4	4	1	3	1	27
NBCB	CCB	8	4	3	3	1	1	1	21
NJCB	CCB	12	4	4	4	1	1	1	27
CQB	CCB	10	3	4	4	1	1	1	24
CITI	FB	11	4	5	5	1	1	1	28
HSBC	FB	12	4	9	6	1	2	1	35
Mean (%)		66.9%	52.2%	18.7%	41.4%	12.7%	31.3%	13.3%	32.9%

Note: This table lists the number of GRI indicators in CSR reports 2009. Bank names are abbreviations as shown in Table 8. Under type of Bank GSO means Government State-owned Bank; CCB means Chinese Commercial Bank; and FB means Foreign Bank. Indicators are grouped by category as follows: FS (Product and Service Impact), Economic Performance (EC), Environmental Performance (EN), Labor Practices and Decent Work (LA), Human Rights (HR), Society (SO), and Product Responsibility (PR). HPS stands for high possible score.

6.6.6.1 Disclosures Major Event of the Year relating to a Low Carbon Economy in 2009 CSR Reports

Table 6-13 shows that Bank of China listed the highest total number of GRI indicators, 48 among 97, and also disclosed the highest number of EN (Environmental) indicators. Bank of China disclosed EN26 in the section of ‘Commitment to the

Environment’ as⁵¹:

“Environmental protection and the reduction of greenhouse gas emissions are critical to the welfare and long term development of mankind. The bank has launched green loans and other green products to support energy saving and emission reduction. BOC is dedicated to building a green bank, and has made persistent efforts to minimise its environmental footprint and support the building of a resource efficient and environmentally friendly society.

The bank has carefully implemented the policies and regulations on energy saving, emission reduction and environmental protection. The bank has launched innovative green products and blended the concept of ‘green credit’ into its credit policies, systems and processes in order to support the development of a low carbon economy” (Bank of China CSR report 2009, pp. 67-68).

From Table 6-13, we can see that ICBC disclosed the second highest total number of Environmental indicators. In the 2009 CSR report, it described environmental information about the indicator EN26 in its ‘Environmental Performance’ section, and linked all the sub-sections with carbon issues, such as ‘Promoting Green Credit Policy and Supporting Low-Carbon Economy’, ‘Promoting E-Banking and Reducing Carbon Footprints’, ‘Implementing a Green Office and Advocating a Low Carbon Life’ and ‘Upholding Green Concepts and Implementing Carbon Neutrality’. It stated in its conclusion on the environmental performance section:

“The Copenhagen summit on climate change indicates a profound reform featuring low carbon and transition towards low carbon footprint with respect to global economy, industry, life style and consumption pattern. Encountering this global leading ‘green revolution’, the bank has heavily advocated green finance and improved the longstanding mechanism of green credit policy, popularized e-banking and supported the development of a low carbon economy by relying on financial leverage; it has also

⁵¹ Bank of China’s CSR report 2009 is in English. The quotations are the original text from the report. The indicators were found from the content of the report based on the GRI indicators list at the end the CSR report.

implemented a green office policy to cultivate all rounded environmental awareness and promote a sustainable and harmonious development in economy, human beings and the natural environment” (ICBC CSR report 2009, p.43).

Shanghai Pudong Development Bank disclosed under indicator EN26 which is relevant to its heading, ‘Development of a Low Carbon Bank’ in the Environmental Responsibilities section, and wrote four sub-sections as ‘Green Credit Policy’, ‘Global Cooperation for the Integration of Green Finance Service Solution’, ‘Product Innovation and Success in Carbon Finance’ and ‘Green Organization to Promote the Low Carbon Economic Community’. It summarised Environmental Responsibilities as⁵²:

“The present world is facing the ternary crisis: beside the short-term financial crisis, the energy crisis and the environmental crisis are more serious crises to face for the long-term development of human beings. Therefore, the development of Low Carbon Economy has been known universally. The Climate Conference in Copenhagen has blown the trumpet; China has considered the improvement of energy efficiency, emission reduction, exploiting and utilizing renewable energy resources as one of the most important parts of the future development and economic transition strategy. Commercial banks are managing credits, propagating strategies, allocating resources; they are one of the core strengths in society. SPDB is carrying out the social responsibility, taking the lead in the financial area of using water carbon, in order to develop the low carbon bank in the financial sector of China” (SPDB CSR report 2009, p.62).

HSBC described itself as ‘the first major global bank to become carbon neutral. As shown in Table 6-13, it had the second highest number of total Environmental indicators within 19 banks in 2009. HSBC disclosed EN26 as:

“HSBC has adopted the highest international standards for doing business and has taken measures to reduce any negative impact that

⁵² It is necessary to state that this quotation appeared in English in the report and is reproduced despite the unusual use of English in parts.

our daily operations may have on the environment. HSBC also seeks to support low-carbon economy. HSBC became the first major international bank to become carbon neutral in 2005 and has been proactively managing its carbon footprint.

HSBC's carbon management plan comprises three parts:

1. The management of our carbon footprint by reducing carbon dioxide emissions in our operations and their direct impact on the environment.
2. The purchase of green electricity
3. The offsetting of carbon dioxide emissions" (HSBC CSR report 2009, p.8-9).

After analysing the CSR reports from 2006 to 2009, the author finds out that different categories of banks disclosed the similar major events in the country, such as growing environmental awareness, disasters and philanthropy in each year - these suggest that expand theory (mimetic isomorphism) and legitimacy perspectives are valid.

6.6.6.2 Comparisons of Disclosures from Different Banking Sectors

This section will select four banks from differing categories as examples to compare their approach to disclosures; they are Bank of China, ICBC, Shanghai Pudong Development Bank and HSBC. Bank of China which described itself as "a large state-owned bank which has maintained a close connection between our growth and the development of the national economy" published the GRI Indicators Index in 2009 CSR report, and disclosed relevant indicators such as FS1. It was disclosed as⁵³:

"In 2009, the Bank continued to adopt a scientific approach to development, stepped up cooperation with stakeholders, diligently implemented a responsible purchasing policy, supported social undertaking and earnestly performance its social responsibilities as a global corporate citizen with a view to co-existing harmoniously with society.

The Bank developed extensive cooperation with government agencies,

⁵³ Bank of China's CSR report 2009 is in English. The quotations are the original text from the report. The indicators were found from the content of the report based on the GRI indicators list at the end the CSR report.

other banks, enterprises and the media with the aim of seeking mutual benefit and shared success” (Bank of China CSR report 2009, p.55).

Bank of China disclosed FS2 which is relevant to the procedures for assessing environmental and social risks as:

“The Bank enhanced its accountability systems for significant information disclosure errors and issued the Measures on the Management of the Insiders of Internal Information of BOC to strengthen the management of information disclosure and prevent insider trading” (Bank of China CSR report 2009, p.35).

As one of the largest government state-owned banks ICBC disclosed FS1 which is relevant to policies and procedures with specific environmental and social components as:

“During the reporting period, the bank continued to improve the longstanding mechanism of ‘green credit policy’, strictly control loan growth in high-consumption and high-emission industries, placing environmental risk management in credit management; analyzed in-depth the opportunities and challenges to China brought by the low-carbon economy and adjusted the credit structure with forward-looking perspective based on the levels of carbon emission in different industries and enterprises; carefully carried out the national strategy on adjustment of energy structure and the development of new energy industry, actively support the credit demand in renewable energy resources industry and energy conservation industry to adjust the resource allocation by using financial leverage and support the development of low-carbon economy” (ICBC CSR report 2009, p.52).

Moreover, ICBC disclosed the indicator EC8 which means development and impact of infrastructure investments and services provided for the public through commercial engagement as:

“Under the philosophy of ‘being rooted in society, contributing to society and serving society’, the bank’s Head Office and branches adopt parallel effort in public welfare undertakings. The Head Office organizes bank-wide activities with centralized resources and the domestic branches carry out activities taking into account local conditions. Ensuring the sustainability of donations, the Bank

formulated and implemented the ‘Administrative Measures on the Expenditure for External Donation’ to strengthen the management of donation and donated properties. During the reporting period, excluding individual donations of employees, the Bank contributed RMB 24.66 million to alleviate poverty and support other public welfare events involving education, sports and charity” (ICBC CSR report 2009, p.63).

The results obtained from the Government State-owned banks’ CSR reports show that the substance of all of them indicated more concern about the wider economic context in China, which is consistent with a process of coercive isomorphism in the context of the economic and political perspectives;

Shanghai Pudong Development Bank published the first CSR report in the Chinese banking industry in 2005. Since then, SPDB has continued to issue a CSR report each year. SPDB described the CSR activities in 2009 as:

“the year 2009 witnessed the great efforts made by the bank to further adjust its credit structure to support the macro-economic adjustment measures taken by the central government, the active efforts to boost financial services in rural areas by setting up more SPD rural banks, promote the construction of a ‘green bank’ and the pioneer efforts to launch carbon transactions in China” (SPDB CSR report 2009, p.3).

In addition, Shanghai Pudong Development disclosed under FS1 as:

“In 2009 SPDB continued in carrying out the policy of state macro-control, and carried out strictly the guidance of the policy of energy-saving and emission reduction of supervision and regulation department. The bank issued the SPDB Credit Guidance 2009, making clear the energy-saving and emission reduction of credit requirements, maintained pressure and different treatments on the credit companies and new projects, cautious in dealing with high energy consumption, high emission, resource-consuming type, overcapacity enterprises. To make sure that the limited financial resources will be put into environmental protection, and is committed to building a conservation-oriented society of sustainable development ” (SPDB CSR report 2009, p.63).

Shanghai Pudong Development Bank encouraged staff to work as volunteers in order to improve staff competency to implement the environmental and social policies. This

kind of activity is linked with FS4 and disclosed in the CSR report as:

“On 9th Jan, the third SPDB’s volunteers Day themed by ‘Less Carbon, Better Life’ were launched. More than thousands of volunteers from both the head office and branches, with the same hats on the head and flags held highly in the hands, went to the streets and communities and carried out all kinds of environment protection activities to forge a low carbon bank and doing contribution to the Low Carbon Economy ” (SPDB CSR report 2009, p.48).

The Group General Manager, Richard Yorke, from the foreign bank HSBC gave a preface at the beginning of the 2009 CSR report, and said that:

“Corporate Social Responsibility is an essential part of our corporate sustainability strategy. We believe that as a good corporate citizen we have a responsibility to continuously contribute to society and to the communities in which we operate. In 2009, environmental protection and education remained the focuses for HSBC China’s CSR efforts” (HSBC CSR report 2009, p.2).

HSBC disclosed under FS1, FS2 and FS4 in one section as:

“HSBC China manages the direct environmental impacts of our business by reducing energy consumption, water use, waste and carbon dioxide emissions. This is achieved by improving the environmental performance of the Bank’s operations and incorporating sustainability into our purchasing decisions.

In addition, HSBC has developed and applies its own environmental lending policies that cover lending to sectors in which some environmental or social risks may exist. These policies are applied in order to effectively assess and monitor such risks.

HSBC China also encourages staff to participate in efforts to reduce the Bank’s environmental footprint. On the World Environment Day in 2009, under the theme of ‘Be part of the solution’, detailed action plans for sustainable development were introduced over a week to enhance staff awareness and invite staff participation” (HSBC CSR report 2009, p.9-11).

After the natural disaster in 2008, HSBC moved the main focus of the investment and services provided for the public (EC8) to ‘Support Social Development’. For example, it disclosed EC8 as:

“HSBC China was the lead sponsor of a research programme of the China Development Research Foundation of the State Council on providing nutrition to children in poor families in rural areas.

The two-year social policy innovation programme was designed to explore and recommend ways to guarantee nutrition for children in poor rural families through pilot experiments, monitoring and research. It aimed to provide suggestions for government decision making. Selected schools in Du an County in Guangxi, participated in the research and were given nutrition subsidies” (HSBC CSR report 2009, p.20).

6.7 Conclusion

Chapter 6 has presented an overview of the Chinese banking sector, a disclosure index, with example disclosures, of the CSR reports released up to June 2010 from all 19 participating banks, which include Government State-owned banks, Joint-equity Commercial banks and foreign banks. The author described the regulatory and legal framework of CSR in China first, and considered the categories and indicators from the GRI guidelines which were adopted as the basis for the disclosure index. Although the 19 banks applied different CSR guidelines or did not explicitly apply any guidelines, the CSR reports from 2005 to 2009 of 19 banks were analysed according to their reporting of the GRI indicator categories, which includes a Financial Services Sector Supplement sections. The GRI analysis categories are: Product and Service Impact (FS); Economic Performance (EC); Environmental Performance (EN); Labor Practices and Decent Work (LA); Human Rights (HR); Society (SO); and Product Responsibility (PR).

There were 5 Government State-owned banks in the research. The descriptions of their objectives and responsibilities from the CSR reports seemed more concerned about the economic big picture in China, which is consistent with the institutional,

and economic and political perspectives; such as adapting to the economic situation changes via macro-economic adjustments. They claimed responsibility for promoting national economic growth and supporting national infrastructure projects.

The CSR reports from different years reflected major events in the nation, such as natural disasters, or the Olympic Games in Beijing; and the great waves of the global financial crisis. In 2005, Shanghai Pudong Development Bank was the first and only Chinese bank to issue a CSR report. The report focused on disclosing information about the Development of Shanghai Pudong Development Bank rather than CSR implementation. There were a total of four CSR reports from China Construction Bank, China Merchant Bank, Shanghai Pudong Development Bank and HSBC in 2006. The CSR reports from these banks started to discuss details of organisational relations from stakeholder perspectives of responsibilities towards the state, customers, shareholders, and staff. Moreover, the banks' reports were consistent with the mimetic isomorphism perspective in appearing to learn from each other regarding activities, such as supporting public welfare services and environmental protection under government directions. After the 'Basic Principles for Approving Credit Lines for Large and Medium-sized Customers' was formulated and issued in 2006, the Chinese banks' CSR reporting reflected concern that meeting environmental targets would be a major criterion in approving credit lines.

In 2007, 12 banks issued CSR reports. Whether they were Chinese local banks or foreign banks, all of them disclosed a section or at least a sub-section of their report according to their perspectives of relationships with stakeholder groups. Moreover, they continued disclosing information about implementing the Government's 'Green

Credit and Lending' policies. The Chinese banks started to state their activities to prepare for and support the 2008 Olympic Games in China.

In 2008 and 2009, all of the 19 banks in the research sample issued CSR reports. Their CSR disclosing focus was often under a 'philanthropy and donation' headline as earthquake relief activities were reported, such as setting up tent banks, mobile banks and a green credit channel in disaster-hit areas when a devastating earthquake hit Wenchuan in 2008. Moreover, all the banks disclosed the amount of donations from the bank and staff to the affected areas in support of the reconstruction efforts.

The banks emphasised in their CSR reports that they were facing issues from the global financial crisis in 2009; and they also paid more attention to the long-term development of environmental protection, especially low carbon economy efforts after the Climate Conference in Copenhagen and the government's direction towards improvement of energy efficiency and emission reduction. 'Green Products', 'Green Credit' and 'Low Carbon Economy' became popular and repeatedly used words in the banks' CSR reports around this time.

The banks clearly appeared to be emphasising legitimacy in terms of adapting to government priorities by disclosing their CSR activities. For example, one of the Government state-owned banks, Bank of China stated: "we have paid great attention to the state energy intensive and highly polluting industries policy guidance from the government" (BOC CSR report 2007, p.22). Moreover, China Merchant Bank which is one of the Chinese Commercial Banks emphasised activities "in order to make the company business strategy more accord with the requirements of national industrial

policies and environmental policies from the government” (CMB CSR report 2007, p.6). Citi Bank China, a foreign bank, indicated its awareness and endorsement of national policies: “Citi China fully supports China’s efforts surrounding its Green Credit Policy, which was launched in 2007 by China’s Ministry of Environmental Protection (MEP), the China Banking Regulatory Commission (CBRC) and People’s Bank of China (PBOC)” (Citi Bank CSR report 2007, p.23).

The following Chapter 7 attempts to complement the findings from their reports analysis by reporting on and analysing the results from the semi-structured interviews. It focuses on perspectives about CSR understanding, practices, and development from a range of interviewees who worked for an auditing firm, foreign banks, a CSR consultancy, Chinese Commercial Banks, Government state-owned banks and the Chinese university sector.

Chapter 7

Semi-Structured Interviews in China

7.1 Introduction

The two research methods, semi-structured interviews and content analysis, employed in this thesis were explained in chapter 5. This chapter presents the findings from the semi-structured interviews, which were conducted on four visits to China between July 2009 and March 2013. These 19 interviews were carried out with a range of informed parties, comprising: three auditors from an international auditing firm in Beijing, three bankers from a Beijing branch of a Western bank, one bank branch manager from a Japanese bank, one CSR professional consultant from a CSR consultancy and study centre, six banking managers and PR staff from local Chinese commercial banks, four PR staff and a branch manager from Chinese government state-owned banks, and one academic professor from the social relationship department of a Chinese university.

The interview results which were generated from 19 interviewees will be discussed using key themes and factors, in order to provide some insight into the current understanding of corporate social responsibility in China. Of particular interest in the banking industry are current practices, the factors which influence CSR practice, and the development and influence of the legal system or guidelines. Table 7-1 on page 179, lists a number of important characteristics about the interviewees, such as their gender, their positions and the organizations they work for. The interviewees were chosen to be contacted because, first of all, the author felt that they may have particular understanding and knowledge of corporate social responsibility in the

context of the Chinese banking industry. Secondly, the author was in a position to establish a trusted relationship with them through personal contacts. The problems associated with carrying out interviews in China were discussed in Chapter 5, where the importance of personal relationships in establishing interview access was emphasized. All of the interviewees were conducted in the Chinese language, and then the author translated the notes from the interviews into English.

This chapter is structured as follows: section 7.2 provides the background details for gathering the empirical data; section 7.3 explores interviewees' CSR understandings whilst banks' motivations for CSR activities and reporting are discussed in section 7.4. The compacts and influences of CSR, and beyond the bank, are examined in section 7.5; 7.6 provides views on motivations for providing and adopting CSR guidelines; stakeholders are explored in section 7.7, with lending decisions in 7.8. Interviewees' views on how to improve CSR precede the chapter conclusion in 7.10.

Table 7- 1 A Descriptive Analysis of Interviewees

Interviewee	Gender	Position	Location	Type of Organization	Highest Qualification
AF1	F	Business Partner	Beijing	AF	Masters/Auditor
AF2	F	Senior Manager	Beijing	AF	Masters
AF3	F	CSR Team Member	Beijing	AF	Master
FB1	F	Assistant Vice President	Beijing	FB	Masters
FB2	M	Vice President	Beijing	FB	Masters
FB3	F	Financial Advisor	Beijing	FB	Masters
FB4	M	Branch Manager	Tianjing	FB	Masters
CCB1	F	Department Manager	Beijing	CCB	Masters
CCB2	F	Corporate Banking Advisor	Beijing	CCB	Masters
CCB3	M	Staff at PR Department	Beijing	CCB	Bachelor Degree
CCB4	M	Vice-President	Beijing	CCB	Masters from Qinghua University
CCB5	F	Banking Group Staff in President Office	Beijing	CCB	Masters
CCB6	M	Branch Manager	Beijing	CCB	Masters
CGB1	F	General Staff at PR Department	Beijing	CGB	Masters
CGB2	F	General Staff at PR Department	Beijing	CGB	Bachelor Degree
CGB3	F	Branch Manager	Beijing	CGB	Masters
CGB4	F	Staff at PR department	Beijing	CGB	Master
U1	M	Academic Professor from the Chinese University	Beijing	University	Professor
CC	M	Director Assistant	Beijing	CSR Consultancy	PhD

Note: This Table highlights a number of important characteristics about the interviewees. In particular, ‘Gender’ distinguishes male from female, ‘Position’ relates to their job title, ‘Location’ refers to the area they were based in, Type of organization emphasizes the classification of their place of work. ‘Highest Qualification’ refers to their educational background. “AF” means auditing firm, “FB” refers to foreign bank, “CCB” means Chinese commercial bank, “CGB” refers to Chinese government state-owned bank, “U1” means university professor, and “CC” refers to CSR consultant..

7.2 Background to Collecting and Analysing the Empirical Findings

There were three stages of data collection and analysis, which were: (1) composing the semi-structured interview questions, and arranging the interviews; (2) conducting the interviews and note-taking; and (3) analysis of the resulting data.

The interview process used semi-structured questions which allowed the interviewees to provide any further information where necessary. The questions contain some key aspects such as: understanding of CSR; the influences on CSR; CSR and lending decisions; CSR disclosure; motivation for implementing CSR; cultural or political influences on CSR; differences in approaches to CSR in local and foreign banks; and further suggestions.

The selection of interviewees and the initial contacts were, as noted above, made through personal contacts, such as family relationships, and previous colleagues, or were introduced through friends, which can be called “the Chinese Guanxi”. It can be described as personal networks, connections, and relationships in the Chinese society. “Guanxi” is a significant factor when something needs to be done through the trust between each individual. Under the Chinese cultural background, people establish the trust first, in order to build good “Guanxi”; and it usually extends from family relationships, colleagues, school friends, social clubs or communities. Normally, Chinese people use gifts in establishing “Guanxi”. The author brought gifts to each interviewee, in order to give them a good impression and create the opportunity for a further interview if that were to be thought desirable or necessary. The interviews lasted between forty and sixty minutes and usually were conducted at the interviewees’ place of choice such as their meeting room, a coffee shop or restaurant near their office. All of the interviewees required the researcher to explain the aim and

purpose of the interview first. They sought confidentiality assurances and emphasized that the researcher should not publish any information they provided for any media usage or government research. At the start of the interviews carried out during the first three visits back to China, the author explained the aim of the interviews as being to establish academic findings for PhD research in the UK. However, the interviewees still typically felt nervous and appeared to be reticent, and less than frank about their own knowledge and opinions. Some of them kept repeating phrases from their CSR reports instead of responding to the questions from their own point of view. After March 2013, the author changed the explanation of the purpose of the interview based on the suggestion from a family relative who is working as a vice-president of a local Chinese Commercial bank. He suggested that the author should introduce herself as a graduated student who had studied corporate social responsibility in the UK, and was looking for a job in the CSR field in China. He felt that this would help to establish a trusted rapport and help to find the real and honest answers from the interviewees⁵⁴. Therefore, the last four interviewees interacted with the author a young lady who had studied overseas and had a little understanding about the Chinese CSR market. It seemed that they were glad to tell true stories and give sincere suggestions. Moreover, the author established friendships with them, and could chat with them and review some interview points through internet messenger frequently.

The second stage of the process required all the interview results to be as fully documented as possible. The interview notes were completed by the author as soon as was possible after finishing the interview. This was particularly important since all of the interviewees refused to allow use of a recorder during the interview, and some of

⁵⁴ In deciding to adopt this approach the author carefully considered the ethical aspect of such a presentation. In fact, since the author is interested in working in the banking sector in a CSR capacity, worked in the Chinese banking sector before studying the PhD, and has graduated with Bachelor and Master Degrees in the UK, the author felt that such an introduction would be reasonable.

them felt uncomfortable when the author tried to write the interview notes. For example, there was interviewee who worked in a Chinese local commercial bank who asked the author: *“are you using any recorder now? I told you all the truth, but please do not record it, and the stories are just between you and me.”* In addition, it is important to note that the interviewees were happy to treat the interview as a personal talk between friends, rather than an official interview. Otherwise, it would be extremely difficult, if not impossible, to encourage interviewees to speak reasonably frankly.

The third step of the process was a comparative analysis of the results and systematic categorization of the interview findings. All answers for each question were organized into a table of findings by the author. In some cases, the answers for a question could not be obtained from all the interviewees. The questions needed to be ignored for some interviewees for whom particular questions were not relevant to their work or where the interviewee lacked specific working experience. For example, the questions which were relevant to the differences in approach to CSR between Chinese banks and foreign banks were removed when the author carried out the interviews with auditors, and the university academic. The following sections outline the key findings from the interviews in a number of themed headings and then provide a discussion and recommendations arising from the interview research.

7.3 Understanding of Corporate Social Responsibility in China

The first interview question asked the 19 interviewees to define their understanding of corporate social responsibility. Dahlsrud (2008) claims that in both the corporate and the academic areas there is no clear and unbiased definition of CSR. In the current

research, all 19 interviewees agreed that corporate social responsibility could contribute to the sustainable development of the Chinese society. However, they talked about the meaning of CSR differently depending on their different backgrounds and the nature of their work. There are two main categories of understanding which were given by the interviewees. The first category of CSR understanding is from the 15 interviewees who could define CSR relatively similarly to the definition provided by western associations such as the ACCA; this definition presents CSR as a business strategy whereby organizations integrate social, environmental and stakeholder concerns. These interviewees also had their personal opinion of CSR in the Chinese context and in their own working environment. In contrast, 4 of the 19 respondents did not have a clear concept of CSR due to what they termed a lack of formal education and information of the area; in addition, they did not feel that CSR was relevant to their daily work in the bank. Therefore, it is not easy for them to give an official definition of CSR. They still gave their personal understanding of CSR, such as it is a good or bad thing for the bank or for themselves; these findings are still regarded as being of value in the current research and will be analyzed further below.

7.3.1 Academic and Personal Opinions of the meaning of CSR Concept in China

15 of the 19 interviewees were in a position to recognise and understand the formal concept of CSR. Moreover, five of this group were not working for banks. They are interviewees AF1, AF2, AF3, CC and U1.

Interviewees AF1, AF2 and AF3, a senior manager, a business partner and a member of a CSR team respectively were from an international auditing firm in Beijing. Interviewee CC is a consultant at the CSR research centre. Interviewee U1, a

professor at a Chinese university did not respond to the question by referring to a definition of CSR or the kind of introduction to the concept found in many banks' CSR reports. He discussed the issue from more fundamental perspective. Interviewee AF2 gave a short answer to explain her understanding of the CSR concept based on the nature of her work, which provides risk advisory services to clients. She said: "CSR is a Western initiative; developed countries have enough time and funds to invest in CSR". Interviewees AF1, AF2, AF3, CC and U1 gave particular emphasis to the topic of philanthropy and their comments will be discussed below in the relevant section.

Apart the above five interviewees who do not work for banks, 10 of the remaining 15 respondents explained the CSR concept based on their banks' CSR report or previous publications. Three of these 10 interviewees suggested that the author read their CSR report for this information rather than have the interviewee take a long time to answer this question. These individuals preferred to discuss the difficulty of surviving during the period of the current financial crisis, how much money their employers donated to poor areas or disasters, and other CSR activities such as saving the environment, paying tax, caring for people, training employees and helping customers. These interviewees also noted how CSR was set as one of their organization's business strategies. Interviewee CGB2, a staff member in the corporate strategy department of a Chinese government state-owned bank answered the question of defining CSR in the following way:

"To contribute to society and benefit people' is the basis of our business. We are using a CSR strategy to build our organization as an excellent corporate citizen and promote the harmony of business growth. The most important major events in the last year for us was

support for the rebuilding of the area hit by the Wenchuan earthquake and making charity donations”.

Interviewee CCB3, a staff member in the public relationship department of a Chinese commercial bank argued that they are focusing on integrating CSR into their strategic development plan and using it to improve their corporate culture rather than just implementing CSR activities. He provided the company’s slogan ‘growth, innovation, and people-oriented’ in this context and then said that:

“In recent years, we emphasize the corporate economic responsibility and social responsibility, and have incorporated social responsibility and the concept of sustainable development into our development strategy and corporate governance. In October 2008, the bank announced its adoption of the Equator Principles, and so we became the first Equator Principle institution in China. We are trying to use CSR to change our thinking in relation to the way of development and business models”.

As a branch manager of a foreign bank in China, interviewee FB4 reasoned that there might be differences in the way that CSR is understood and implemented by foreign banks and by Chinese local banks in China. He explained that in their view CSR means a kind of business strategy for making the foreign bank to be accepted as a local bank by the public and government in China; but for the Chinese local banks, they do not have to consider this purpose. Therefore, the Chinese local banks can see CSR as a supplementary tool to promote their business. He said:

“Banks act as financial intermediaries, we are playing an extremely important role in society. Therefore, banks should take more responsibility than any other industries. We helped many Chinese cities to attract foreign investments, and we donated money to poor people and disasters, then we received support from the local government and trust from the public. We believe that if we take more social responsibility, then we can earn more public trust, and establish our business image and reputation more easily than doing

any advertising. CSR can help us to gain market advantages”.

Interviewee CCB5, a staff member in the president’s office of a Chinese commercial bank, and interviewee CCB6, a departmental manager and member of the general office at a Chinese commercial bank, were both enthusiastic in wishing to state their banks’ explicit CSR activities, such as paying national tax, making profit for shareholders (which they regarded as part of CSR), improving welfare for employees, donating money to poor areas or disasters areas, holding charity dinners, and producing a CSR report annually. In addition, interviewee CCB5 emphasized that the bank he works for is promoting a CSR management system and has assigned a staff member at each branch to promote CSR ideas and provide CSR training programmes.

In contrast to the interviewees who were pleased to give the details of CSR understanding, interviewee CGB1, a staff member in the public relations department of a Chinese government state-owned bank recommended that the interviewer read the bank’s CSR report to find the answer. She recited the words from the CSR report in order to emphasize how the bank sets CSR as its business strategy and noted that the final goal of CSR is building a harmonious society. She said:

“Social responsibility has become an important international standard for assessing modern corporations. We are trying to build a harmonious society through social responsibility. We use CSR to meet our commitments to the society, shareholders, and stakeholders. We have taken CSR as an important strategy for enhancing sustainable competitiveness, stakeholder relations and brand value. CSR strategy can help our bank to promote the harmonious improvement of economy, society and the natural environment in our long term development.”

Zollo (2009) argued that corporate philanthropy and CSR should complement each

other in a corporation's management strategy. Corporate philanthropy is a business activity which can improve the competitive context, and benefit both the company and society. He also claims that organizations implement philanthropic activities, in order to gain a significant advantage in terms of reputation, social capital and business development. Eight of 15 interviewees explicitly mentioned that the mainly meaning of CSR is 'philanthropy' in China at the moment. Interviewee U1, who is an academic professor at a Chinese university, particularly argued that the government should take responsibility for dealing with disasters, and should not encourage or even force corporations to do it. He stated:

“In China, people always treat emergency disasters such as earthquakes as opportunities to take some action and demonstrate philanthropy as a form of corporate social responsibility. The government also educates the public that donations and philanthropy from each individual or corporation can prove how good you are in taking social responsibility. Therefore, sometimes the corporations compete with each other by comparing the amount of donations or other examples of philanthropy.

However, I think corporations should not take the main responsibility for disasters. Moreover, they should not use philanthropy as a way of advertising. Recently, there have been many corporations in China which have used CSR to bribe local governments, in order to get the government's support and protection. Actually business owners should bear in mind that their business decisions and activities have social, environmental, and economic impacts to the society and stakeholder group, therefore, they should balance these impacts with their decision making and interests”.

Interviewee CC is an assistant director at a CSR consultancy and research centre which provides professional advice on producing CSR reports for a government state-owned bank and another Chinese commercial bank. He said

“Nobody can define CSR correctly. The development of Chinese CSR needs a CSR system with Chinese characteristics. Maybe it means philanthropy in China at the current stage. But I am sure this

meaning will be changed in the future following our social development”.

Interviewee FB1, who works in the public relations department in a foreign bank explained her understanding of CSR as:

“CSR is not a new concept in China, more and more people pay attention to it. But most of the Chinese people including bankers think it is a kind of philanthropy and charity donation.

Interviewee CCB6, who works in the general office at a Chinese commercial bank emphasized that:

“CSR is a kind of activity to spend money, but where we cannot see the benefit directly by doing it. Therefore, we have to explain the final goal of doing CSR to our shareholders such as philanthropy being the way to win stakeholders’ support and trust, in order to balance their stakeholders’ interests with shareholders’ interests”.

Interviewee AF1, a partner of an auditing firm gave the following description:

“CSR is a kind of philanthropy or a way of establishing a good reputation for corporations. It is a tool for establishing good relationships with the public and government”.

Three interviews were carried out in March 2013, with interviewee AF3, a staff member in the CSR team of an auditing firm in Beijing; interviewee CCB4, a project financing manager in the “Sustainable Finance Department” of a Chinese commercial bank; and interviewee CGB4, a staff member in the bank president’s office of a Chinese government state-owned bank.

Interviewee AF3 was introduced by AF1 who was interviewed in 2009, and who had established a trusted relationship with the author. AF1 told the author that the auditing firm she works for has established a CSR team under the risk management

department, and would like to recommend the author to carry out more interviews with the staff working in the CSR area. Moreover, as discussed in the introduction of this chapter, the author changed the emphasis in introducing the purpose of the interviews as indicating interest in trying to find a CSR job after graduating from overseas (in addition to noting that it was useful for her academic work). Interviewee AF3 is a young lady and similar in age to the author, also graduated from overseas with a Masters degree. Therefore, the interview was carried out informally at a lunch gathering. The author tried to talk about some interesting personal topics such as educational backgrounds or the experiences from studying overseas with the interviewee, instead of raising the interview questions immediately. Interviewee AF3 told the author that she had studied for a Masters degree in France. At that time, her plan was that if she could not find a good job at an international company then she would like to have stayed in France. Finally, she was so lucky as to be offered a job from the international auditing firm before the financial crisis came in 2008. Moreover, due to CSR business having developed rapidly in China during the previous five years, the auditing firm keeps renewing her contract. She stated that:

“There are two members of staff in the CSR team in the Beijing office, one is me and another one is a foreign guy who worked for an international NGO before. Moreover, there are four CSR staff in the Shanghai office, and a few in the Hong Kong office. The HK team is the most experienced group in the CSR area, so we can learn many things from them. Our scope of work includes providing some consultancy services such as recommending an outline of CSR report to the clients, and assurance services for their report. We do not write the CSR report for them. As I know, the companies, especially the banks, can write the report by their own staff in the bank president’s office or the PR office, due to it not being difficult to do if they have the report’s outline or main structure, and then fill the content in.

I think CSR has the same meaning as Sustainable Development in China; the government proposes that we are trying to achieve a harmonious society by implementing CSR. But recently, not all the companies pay attention on CSR implementing issues in China. From

my working experiences, I feel that there are only the big State-owned enterprises, the financial industry, the energy industry, the textile industry, and some companies which would like to be listed on the foreign stock markets which have some ideas about what is CSR and how to implement CSR. Moreover, the recognition of CSR and understanding of CSR is staying on the surface, such as philanthropy, donations, and saving the energy.

Sometimes I can see that the companies implement CSR or publish CSR reports in order to improve their reputation with the government or regulators. But there is a good sign that companies have realized and started to implement CSR as a strategy to increase their brand name, reputation, and public image. That means that the meaning of CSR has changed from being surface philanthropy to a business strategy”.

The interview carried out with CCB4 was introduced and arranged by a Chinese commercial bank’s vice-president in Beijing who has quite a close friendship with the author. The vice-president said that: “I have very limited knowledge about CSR, but I can introduce one of my colleagues who is working at the Sustainable Finance Department and he may have more information to share with you.”

The interview was arranged in a meeting room of the department, due to the interviewee, CCB4, understanding that the author was introduced by the vice-president, so might be a reporter or expert in the CSR area. At the beginning of the interview, CCB4 was very formal, and brought a notebook and pen into the room. The interviewee appeared to relieve his pressure and tension, after the author explained the purpose of the interview as trying to gain some information about the current development of CSR in order to find a PhD graduated job in China following her ongoing studies. He started to gush over his stories and experiences. He stated that:

“I am the project financing manager of this department. There are 20 staff working at this department, but we are still short of staff. Our

department is responsible for producing the green financial products and issuing the green lending policy. The bank's CSR team is based in Fujian Province. The main scope of the work of the CSR team is writing the CSR reports. From my point of view, the cognition of CSR from the Chinese society as a whole still remains at a basic level as philanthropy, donation, and stakeholder relationships. Actually, everybody understands the principle such as protect the environment, and build the harmonious society; but it is not easy and still needs time and process to raise the realization and awareness of CSR. I believe that CSR does not only mean philanthropy, but also contributing to increase a company's reputation, and establish a good relationship with the government's regulators. Currently, it is a business strategy at the bank I am working at".

After interviewee CCB4 answered this question, he suddenly asked the author: "are you using any recorder"? Then the author showed the screen of the mobile phone to him, in order to prove that it was not being used as a recorder. After the interviewee made sure the conversation was not recorded at all, he was happy to talk about his working experiences, worries, and confusion when he was trying to push the CSR idea and green lending criteria in the bank. These topics and interview results will be discussed in section 7.4.

The author carried out an interview with interviewee CGB4 who is a young lady who works at the bank president's office from one of the big five government state-owned banks in March 2013. This interview contact was established through a previous colleague of the author who just switched to this government state-owned bank. CGB4 gave the following description about her working responsibility and meaning of CSR in her bank:

"I am not involved in making the CSR reports, but I am responsible for dealing with the media and public relations. To be honest, you are the first person who asked me about CSR issues. I understand that CSR is getting more and more attention from the central government and industries, but not many people really care about it from the

daily business. Therefore, I do not put my core working responsibility on it. I only brought one copy of the CSR report today, but I am so sorry to say that you cannot take it away, due to I only have one copy. Actually, I feel it is not easy to explain what is CSR, because I never think about this question, and nobody asked me this before. When you raised this question to me, I think about donations, philanthropy, saving energy, and green finance in my mind. If you had asked me this question 3 years ago, I may only have known about donations, but now “Green” is a hot topic in China. The government is pushing green GDP, therefore, as one of the big five government state-owned banks, we are also implementing a green working environment, and green finance such as green donations, green funds, supporting low carbon projects, and green lending”.

Interviewees AF3, CCB4, and CGB4 were also very interested in the author’s personal reasons for studying CSR and in what kind of CSR job the author would like to do in China. For example, AF3 said that:

“You studied a very interesting area which is a hot and sensitive topic in China. What do you plan to do after you have graduated and returned to China? If you are going to work in the CSR area, then I hope that we can have the opportunity to work together to promote the CSR idea. I feel that the Chinese enterprises do need such professional people in CSR to provide the CSR consultancy services to them.

One interviewee, who defined himself as having no professional or academic understanding of CSR, also highlighted the ‘philanthropy’ issue when he answered the question. The interview results from him will be discussed in the following section with the other 4 interviewees as a group of people who described themselves as having no particular knowledge of CSR, but who have some personal opinions based on the nature of their work.

7.3.2 Interviewees Who Have no Particular Knowledge of the CSR Concept but Who Expressed Personal Opinions

Although many interviewees agreed that CSR is not a new concept in China; others noted that it is not easy to define it, especially for somebody who has not been educated in this particular area, or who does not have a relevant working environment or personal experiences. Four of 19 interviewees could not give a formal definition of CSR. However, interviewee FB2, a vice president of a foreign bank in Beijing talked about CSR in the context of ‘philanthropy’, based on his educational background in Australia and personal opinion, he said that:

“To be honest, I do not really understand CSR. I just know that the CSR department in my bank is the only one which does not have to achieve sales targets and make a profit. We are trying our best to make a profit for the bank, but they are spending money. I can not say that they are wasting money on doing CSR. Maybe I just have not realized how important CSR is for the bank. Referring to my previous studying in Australia, I have learned some western theories and business words. So I think CSR means philanthropy for almost all of the corporations in China now. Maybe it is a good strategy to establish good relationships with the public and with the government for my bank in China”.

Interviewees CCB1 and CCB2 who did not have particular knowledge of the CSR concept came from the same Chinese commercial bank. Interviewee CCB1, the manager of a private banking department felt that CSR is a tool to get more awards and higher recognition in the banking industry, he commented:

“I do not have the academic idea of CSR. Nobody has taught me about the meaning before. But I know the bank I work for has already issued some CSR reports. Maybe better reports and a higher amount of donation can help a bank to gain a higher ranking”.

Interviewee CCB2, a corporate banking advisor also emphasized that he did not feel that he had much idea about the meaning of CSR. He realized that CSR is relevant to his bank's lending criteria and having donation activities due to his having been involved in some lending projects and donated his personal money when the bank called on them to do it. He considered CSR as a corporate behaviour which can give benefit back to society and also be used to enhance a business reputation at the same time.

Interviewee FB3 was a financial advisor in a private banking department at a foreign bank in Beijing. She concluded her understanding of the CSR concept by a few sentences as: "maybe CSR is the way to make higher profit by doing good things for the long term, but it is not a factor I feel should be I concerned with when I provide financial services to my clients. So I do not really care about the meaning of CSR".

According to the answers and nature of work of the above four interviewees, the researcher realized that three of them shared certain characteristics: they each came from financial services departments of the banks, which were responsible for providing financial advice and selling financial or lending products. They had not received any formal education or training programmes about CSR knowledge in their bank. They also felt that it is not necessary to understand the concept, because CSR was not seen to help them to achieve their sales targets or improve their working performance. Some interviewees argued that CSR was not really helpful for their daily work performance; but most of the interviewees did agree or implied that CSR activities do have positive effect on businesses' financial or social performance.

7.3.3 Summary

The evidence from the interview question about the meaning of CSR shows a consensus that CSR is mainly treated as philanthropy in China recently, and people realize that it could contribute to a harmonious society. Interviewee AF3 defined CSR as it has the similar meaning as sustainable development. The majority of interviewees considered this question from the stakeholder perspective, they defined CSR as a business strategy to balance stakeholder interests. There were three interviewees who felt that CSR disclosures which showed the contribution the banks made to disaster relief was more important than answering this question. Therefore, they suggested that the author read their bank's CSR reports to find the meaning of CSR by herself. Interviewee AF3 emphasized that many corporations use philanthropic CSR as a way of advertising, establishing a good reputation, and bribing local government, in order to get government and public support. She also claimed that the meaning of CSR has changed from being surface philanthropy to a business strategy, as banks have started to realize that CSR activities can influence in the relationships with their stakeholders. It is worth underlining that interviewee U1 strongly argued that it was wrong to treat philanthropy as a form of CSR, and that corporations should not be the parties who take the main responsibilities for disaster and saving the poor. The author felt that interviewee U1 was trying to say that the government should take the key responsibility for these activities. However, he expressed this in an implicit way, in order to avoid offending the Chinese government. There were 4 bank interviewees who felt that CSR was irrelevant to their work, but they also saw CSR in the context of 'philanthropy' and 'donations'.

7.4 The Motivations for Implementing CSR Activities and Disclosing CSR Reports

One of the key purposes of the interviews was exploring the motivations for implementing CSR activities and disclosing CSR reports in the banking industry. The author asked the interviewees to explain why a bank implements CSR and why they think it is necessary to disclose CSR information? Is there any pressure from the stakeholders, such as government, regulators, public, or investors? The author classified the interview answers into main five categories by respondents which are auditing firm, foreign banks, Chinese commercial banks, government state-owned banks, and other professions by their different job category.

7.4.1 Interviews within the Auditing Firm

Interviewee AF1 and AF2 gave similar answers about the motivations of implementing CSR which can be concluded as:

“The most fundamental reason for some foreign or local listed companies to implement CSR activities is putting this information or achievements into the CSR reports. Their ultimate purpose is meeting the CSR disclosure requirement from the Stock Exchange markets. But actually, we think that the small shareholders do not really care about the CSR information”.

Interviewee AF3 was happy to talk more about what she thought based on the nature of her work as a CSR staff. She said that:

“I think there are five main motivations for companies to implement and disclose CSR. First of all, most of the companies which implement CSR are government state-owned industries, banking industry, energy industry, and textile industry; due to some government’s regulations which regulate these industries already having published CSR guidelines. For example, the ‘State-owned Assets Supervision and Administration Commission of the State Council’ (SASAC) and ‘National Development and Reform

Commission' (SDPC) have already published CSR guidelines for government state-owned corporations, the textile industry, and other large-scale industries. Although these regulators did not give very specific details of CSR guidelines or requirements, maybe because they do not care too much about the quality or content of the CSR reports. The companies still need to implement CSR activities and disclose CSR information in order to prove that they follow what the regulators propose. Secondly, there are some Chinese companies which have already been listed in the foreign stock exchange market so have to disclose CSR due to the requirement from the foreign stock markets. Moreover, some of the companies which have been listed on the Shanghai or Shenzhen stock exchange markets also need to publish CSR reports. For example, the Shanghai stock exchange requires three kinds of industries to publish CSR reports. But I only remember that one is financial industries, due to our doing the CSR report assurance work for a government state-owned bank which is listed on the Shanghai stock exchange. But you can find out the other two industries from the Shanghai stock exchange website. I feel the other three motivations for implementing CSR are not as important as the last two. So we can talk about them when we meet next time”.

The author implored interviewee AF3 to keep talking about the other three motivations and promised to keep the conversation confidential. Then interviewee AF3 continued saying that:

“In my opinion, the other three motivations can be concluded as being to show the CSR report to foreign investors, companies are very keen on winning CSR rewards to win face and increase the company's popularity, and to treat CSR as a business strategy. I think the last one is less important since, if the regulators do not push them to do it and there is no financial interest, then not many Chinese companies would like to spend money on CSR activities. In the same way, there are not many companies who employ a third party to provide assurance to their CSR reports, also because they do not want to spend money on it. Therefore, one of my missions of work is trying to change the way they see CSR and raise their awareness”.

7.4.2 Interviews with the Foreign Banks in China

The interviewees who work at the foreign banks typically gave different answers according to the question about motivation. Interviewee FB1 who works as assistant vice president in the public relations department stated that:

“It is not that easy to do business as well as local banks in China. The bank I work for is a foreign bank which cannot be listed in the China stock exchange and cannot issue as many financial products as the local banks are offering. Therefore, CSR is quite important for our business in China during this developing stage. First of all, we implement CSR and disclose the reports in order to prove that we follow the local regulators’ guidelines such as the CSR guidelines from the China Banking Regulatory Commission. Moreover, although our bank is not listed on the Chinese stock exchange, it was already in the foreign exchange market. And we have quite a long history and experiences on doing CSR and making CSR reports. So as an international bank, we are publishing CSR reports in many different countries, and certainly would include China. Finally, I think implementing CSR is a kind of strategy for our bank to establish our reputation, increase brand name, satisfy stakeholders, and seek business opportunities”.

Interviewees FB2 and FB3 work for the same bank as FB1, however, their answers to this question were different from FB1’s due, it would seem, to the difference nature of their work. Both of them felt that did not have too much idea about the motivations for implementing CSR. The only two reasons they could think about were business strategy and helping their reputation in the eyes of the government. In addition, FB3 said that: “I did not pay much attention to why the bank I work for is doing CSR. And no clients have asked me about this question before. I approve CSR strategy, but only based on it does not affecting my working performance”.

Interviewee FB4 who works at another foreign bank in China said that:

“If we want to work as a local Chinese bank, and business as successfully as them, we must give more than we take when we just enter the China market. Therefore, we implement CSR to prove that we are not only doing business in China, we also care about the Chinese environment and the livelihood of the people. It is a shame that we have not published any CSR reports in China yet. But I think we will start to do so shortly”.

7.4.3 Interviews with Employees of the Chinese Commercial Banks

The interviewees who work at the Chinese Commercial Banks responded to the motivation question from a different perspective to the foreign banks, such as meeting the requirements from the stock exchange markets and government regulators.

Interviewee CCB1 claimed that:

“I think the motivation for implementing CSR is the pressure from the government and regulators, such as the China Banking Regulatory Commission. Otherwise the Chinese enterprises will not do it voluntarily due to they have not realized the real merit by doing CSR, and only can see the costs which will be generated”.

The interviewee CCB2 stated that:

“The most important motivation is, I suppose to the pressure or push forward from the Chinese government. As I know, banks’ green lending policy was also recommended and pushed by the government. Regarding reasons to issue a CSR report, I do not know the specific reason, but I think it is simple to understand that if we do something good and spend money on it, then we should show it to the public and government, in order to win a good reputation”.

Interviewee CCB3 emphasized that the bank he worked for was based in a city in the South of China, not the economic and political centre of Beijing; and it had been listed on the Shanghai Stock Exchange since 2007. He said that:

“The bank’s biggest shareholders are the local bureau, so that is why we have strong government support and developed rapidly within the past 20 years. We have more than 70 branches in China at the moment. We established close relationships with each local bureau, industries, and customers by implementing CSR. Therefore, CSR is a kind of business strategy for our bank, especially on adopting the Equator Principles. Moreover, as I said the bank has already been listed, so we have to implement disclosure of CSR based on the requirement from the Shanghai Stock Exchange. In addition, implementing CSR is a good way of advertising the bank name, and may attract and keep some individual shareholders. Although I do not think all the people care about CSR activities, there is still a group of people or regulators who pay attention to this area. Therefore, it is

worth implementing CSR for a medium size commercial bank like us in China”.

Interviewee CC4 who was interviewed during the last visit to China talked about motivations more openly and he said that:

“I think the first reason for disclosing CSR is meeting the CSR disclosure requirement from the Shanghai Stock Exchange from 2007, and we did not know how to implement CSR and what kind of activities we should do at the early stage. But we were quite lucky because at the same time, the International Finance Corporation (IFC) became one of the bank’s shareholders. IFC helped us a lot and gave us much good advice on CSR, especially on green lending issues and how to make a sustainable development report.

Moreover, IFC have invested in the CSR area for our bank. Therefore, we had support on CSR knowledge and financial costs. Furthermore, we disclose CSR and green lending information in order to meet the requirements and follow the guidelines from the regulators, such as the CSR guidelines and Green Lending guidelines from the China Banking Regulatory Commission.

In addition, there are more than two hundred Chinese Commercial banks, and more than 20 foreign banks who are doing similar banking business as us. And as a medium size Commercial bank, the bank’s history, reputation, and brand name cannot compete with the government state-owned banks. Therefore, the bank I work for has to seek a new way of advertising the bank’s brand name and establishing a relationship with the government’s regulators, such as the China Banking Regulatory Commission.

CSR is a hot topic in China, every green topic is also very popular in the government and public eyes. So our bank is earlier than almost all of the other banks on implementing CSR and disclosing CSR reports in China, with the help from the IFC and requirement from the Shanghai Stock Exchange. I should say that we did not expect much good feedbacks by doing CSR at the beginning. In other words, we did not plan to set CSR as a business strategy. CSR has gradually become one of the business strategies. Now we realize the benefit by doing CSR, so we are investing money, and labor on it. For example, there is a specific link on the bank’s website, which shows sustainable finance and CSR reports. But normally, other banks do not set CSR as an individual part of the business or strategy, they just put CSR information under stakeholder relations or corporate governance”.

The interviewee CCB5 emphasized that the bank he worked for is the first national joint-stock commercial bank. It has been listed on the Shanghai Stock Exchange since 2000. He said that:

“Although the bank I work for is seen as a private commercial bank, actually, we cannot establish this bank without government and politicians’ support. So the main motivations to implement and disclose CSR are meeting the requirement from the stock exchange and the call on banks to do CSR from the government. Moreover, we realize that CSR activities help the bank to improve relationships with individual shareholders in the Stock Exchange, and also helps to show what we did to our big shareholders. In other words, it decreases the risk to lose shareholders, investors and employees. Therefore, CSR has become one of the bank’s business strategies which can bring a good reputation and the highest government awards to the bank; for example, we won the ‘China Charity Award for 2009’ and ‘Excellent Examples of Corporate Social Responsibility in China’. In addition, we are also paying back to our society and public by implementing CSR such as donations, charities and public investment”.

Interviewee CCB5 emphasized that the bank he worked for is the first national joint-stock commercial bank. It has been listed on the Shanghai Stock Exchange since 2000. He said that:

“The bank I work for has been listed since 2007 both on the Shanghai and Hong Kong Stock Exchanges. Therefore, we have to implement and disclose CSR in order to meet the requirements from the stock exchanges. I think CSR is a good way or strategy to increase the bank’s reputation, so we put CSR information and reports under the ‘about us’ on the bank’s official website.

7.4.4 Interviews with Employees of the Government State-owned Banks

There were four interviewees who worked at the government state-owned banks answered the motivation question based on their banks’ status and their personal working experiences. Interviewee CGB1 said that:

“The bank I work for is the biggest local government state-owned commercial bank in China. It has been listed on the Hong Kong and Shanghai Stock Exchange since 2006. We put CSR with investor relations together, due to it improving the relationship between the bank and investors, especially foreign investors. So we are implementing CSR in order to have better relations and also to meet the CSR disclosure requirement from the stock exchange markets. In addition, we are trying to win higher reputation when we implement CSR activities, such as donations, support the poor areas, and save the environment”.

Interviewee CGB2 emphasized that the bank he worked for is one of the biggest five government state-owned banks in China; and it is one of the ‘Fortune 500’ as well.

She stated that:

“Because the bank is top 5 in China and Fortune 500 in the world, so we should establish a good image and reputation. One of the good ways to achieve this purpose is implementing CSR and disclosing CSR reports to our local and foreign stakeholders. Moreover, the bank was listed in 2006 on the Shanghai and Hong Kong Stock Exchanges. So the bank has to publish an individual CSR report regarding to the requirement from the stock exchange. Furthermore, as a government state-owned enterprise, we are supposed to act as a good example and lead the CSR development in the banking industry. Therefore, we are determined to make a contribution to developing CSR in the banking area, and also to try to help other banks to implement CSR activities”.

Interviewee CGB3 claimed that:

“The bank’s main business is for supporting and lending to China’s basic and biggest industries and facilities, such as the Three Gorges Project and the Olympic Bird Nest stadium. Actually our bank provides loans to almost all of China’s major developing projects. Therefore, we must act as a good example on CSR and also help other small banks to improve CSR activities. Although the bank has not been listed on the stock exchange, we still follow what the government and regulators propose banks to do, of course including publishing the CSR reports annually”.

Interviewee CGB4 who was responsible for dealing with the media and public

relations said that:

“Although my working responsibilities are dealing with media interviews, and public relations, I never studied or considered about CSR, so I never think about this question. I only can tell what I think from my working experiences. I think the first motivation is meeting the CSR requirements from the stock exchange, due to the bank having been the first Chinese local commercial bank which was listed on the Hong Kong stock exchange; it has been listed since 2005, and also it was listed on the Shanghai stock exchange in 2007. Secondly, the Chinese government and regulators are pushing CSR, such as the China Banking Regulatory Commission which published CSR guidelines for the banking industry. Therefore, we have to follow what the government encourages. Thirdly, we are one of the big five government state-owned banks in China, so we need to establish a good reputation and image. We cannot fall behind other banks on CSR activities”.

7.4.5 Interviews with the Academic Professor and CSR Consultant

There were two interviewees who had particular knowledge of CSR, but who did not work in the banking industry. Interviewee U1 said that:

“I think the government guidance is the most important motivation to implementing and disclosing CSR in the banking industry. Without government guidance and encouragement, the stock exchange markets also will not care too much about the company’s CSR performance, due to it not affecting that much on share price and the individual shareholders’ decisions in China. In other words, negative CSR information such as environmental damage or ethical scandal will not affect the individual shareholders’ buying decision and speculation. Some companies disclose CSR also for meeting the requirement from the foreign stock exchange if they would like to be foreign listed. Moreover, some banks disclose CSR information by individual CSR report in order to meet the requirements from foreign investors or to prove to potential foreign investors that the bank is doing sustainable business. In addition, the banks have transformed from being compelled to do CSR, to accept it and take advantages by doing CSR, such as advertising to gain more popularity. So the banks would like to say that CSR has become their business strategy now”.

Interviewee CC who worked at a CSR consultancy services and study center said that:

“In my opinion, government encouragement and regulators’ requirements are the most important motivations for implementing CSR and publishing CSR reports. Secondly, the banks have to publish CSR reports in order to meet the requirements from the Shanghai and Shenzhen stock exchanges. But one of the Chinese banks which is our CSR client is doing a CSR report without been listed in China. I think the reason for doing this is because this bank is one of biggest government state-owned banks in China. So this bank should work as a good example to follow the government call. Thirdly, banks management team’s, such as the bank president’s attitude toward CSR and the degree of attention paid on CSR are also important. For example, if the bank president feels that CSR is a good strategy to establish a good reputation, to get support and approval from the government, and win CSR awards, then he or she may fully support and encourage implementing CSR in all the branches.

Finally, I also think that CSR can win face for the bank’s management team. As you know that Chinese people care too much about losing face in front of other corporations in the same industry. The bank’s management team cannot make sure that CSR will bring huge financial interests to the bank; but they are sure that to not implement CSR will bring loss to the bank. For example, regulators’ punishment, such as financial penalty or suspension form the Stock Exchange, and also breach the relationship with government and regulators”

7.4.6 Summary

In relation to why banks are implementing CSR and disclosing CSR information, the author classified the interview answers into five main categories by responders. The interviewees from the auditing firm, the academic and the CSR professional consultant claimed that the key reason for doing this was meeting the requirements and guidelines from important stakeholders, such as the Stock Exchange. However, they also emphasized that not all the stakeholders were treated equally important, because the small shareholders who bought the company’s shares did not really see CSR

as a key element or factor which could influence their trading decision. Therefore, small shareholders were not seen as one of the main motivators for banks implementing and disclosing CSR. Interviewees concluded that the purpose of publishing CSR reports was focused on dealing with government regulators and foreign investors.

The interviewees from foreign banks treated CSR as a business pathway to enter the Chinese market, and to meet the stakeholders' interests. They told the author that they hoped they could become indigenous by implementing CSR and also has establishing good relationships with the Chinese regulators and public.

The answers from the Chinese commercial bank and government state-owned bank interviewees appeared to consider this question from the stakeholder perspective too. The interviewees claimed that the banks were facing pressure from government regulators, such as the China Banking Association and Stock Exchanges. The interesting issue from the interview results was that some of the medium size commercial banks also treated CSR as a business strategy, but not for entry into the Chinese market. It was for advertising the bank's name and gaining the government's approval and support. They felt that this was necessary as they were not having the similar government background as the state-owned banks, and they also lacked exposure in national lending or financing projects.

In contrast to the answers from the interviewees who worked at the commercial banks, the interviewees who came from the government state-owned banks appeared to be less concerned about gaining the government's support by implementing CSR. They thought that they were facing pressure for doing CSR better than non-state-owned banks. They complained that other banks believed that the government state-owned banks were expected to set a good example, and provide a leading position on doing everything, including CSR activities and disclosures.

7.5 The Influences of CSR

When the question about the influence of CSR on an organization's operational management, stakeholder relationships, lending criteria and the staff's daily work was raised, seven of 19 interviewees clearly assumed that CSR influences the business's financial performance and may help business to create value positively in the long term. There were 13 of 19 interviewees who stated that CSR activities and reports contributed to improving stakeholder relations and corporate image or reputation. However, interviewee FB3 and CCB1 did not give much opinion on CSR influence and also felt that CSR did not have much influence on their daily work.

7.5.1 Financial Influences

Interview CGB2, a general staff member in the corporate strategy department of a Chinese government state-owned bank, attempted to explain CSR from the perspective of the bank's financial achievement and using the words from the CSR report, she noted that:

“Performing CSR is the foundation of realizing the organization’s value and contributing to the great achievement of business’ economic growth, social environmental issues, and social welfare”.

When the author asked her to give an example or more details about what kind of financial achievement the bank obtained; the interviewee CGB2 said that: “I am sorry to say that I can not give you more details, because this is our commercial secret”.

It was evident that each interviewee understood that an organization adopting CSR measures increases immediate costs, and that these costs may lead to a decrease in a business’s short-term profit. Interviewee CCB6 believed that: “CSR is a tool to achieve our first business mission in the long term which is making higher profits, and creating better value for shareholders”. In addition, she emphasized that it is necessary for the organization to explain the ultimate objective of introducing CSR to its shareholders, to let them understand that this is not wasting money, in order to balance the shareholders’ interests with other stakeholders’ benefits.

Interviewees CGB3 and FB4 clearly argued that CSR could in fact contribute to improving business financial performance. Interviewee CGB3, from a Chinese government state-owned bank, said that:

“Business should not only try to make short-term profit, we should conscientiously take into account the long-term social impact of our activities and balance between profits and morality. We believe responsibility can help our organization to create value. Social responsibilities should not simply mean costs or constrains, they will also create commercial value for corporations, such as new market, products and customers. Therefore, we are generating the long-term financial returns at the same time as implementing CSR”.

Interviewee FB4 also explained what effects CSR has had on their foreign bank business in China from the perspective of financial performance and market expansion. He stated that:

“In my opinion, economic profit and social responsibility are consistent and complement each other. As a financial institution, the first responsibility is making a profit and then contributing to society and our clients. We can gain market advantages by implementing CSR as well”.

The results of the last three interviews with interviewees AF3, CCB4 and CGB4 in March 2013 regarding the CSR influences question will now be discussed as follows.

Interviewee AF3 said that:

“First of all, the financial influence of CSR reflects in the costs which are occurred by doing CSR. It is certainly that banks have to spend money by doing CSR, such as hiring staff to do it, and pay to third party as my company does for assurance. Now the cost for assurance for a CSR report is around three hundred thousands to five hundred thousands⁵⁵. This cost does not include the money the bank spends on producing the CSR report, collecting data, and implementing CSR activities. So you can image that CSR does affect banks’ financial interests. However, if the banks ignore CSR issues, and do not implement and disclose CSR, then it will lead to the punishment from the government regulators. The regulators may punish the banks to pay a penalty and be suspended from the stock exchange. Therefore, absence of CSR activity will bring financial losses to the corporation in the short term. From the long term view, doing CSR will bring more business opportunities and better reputation to the banks, such as foreign investors, foreign listing, and higher CSR ranking in the banking industry. These factors will influence a bank’s financial profits and may change the bank’s destiny in the future”.

⁵⁵ Equivalent to thirty to fifty thousands pounds.

Interviewee CCB4 who talked in a very natural way, as though talking with a friend, said that:

“My dear friend, maybe because that you just came back from overseas, and studied in other country for quite long time. So you do not know a word which has been used in the banking business called ‘sacrifice’. Actually CSR does cost money. We set up a Sustainable Finance department by doing a lot of work, putting a lot of effort, and spending money. Moreover, I have to emphasize that the costs of implementing the Equator Principles, due to which we lost many lending businesses, such as big lending clients by adopting the Equator Principles. If we see the financial influences of CSR only from the lending perspective then we can certainly say ‘loss’. But the bank I work for is not a big government state-owned bank. It is one of the hundreds commercial banks in China. We do not have as many lending businesses as the government state-owned banks, so we decide to sacrifice part of the lending businesses in order to win the popularity and approval from the public and the government. I think the loss is lower than the costs of advertising, and doing other works to get government support. Therefore, although the bank is losing some businesses in the short term, we can get higher financial advantages from the long term. In addition, maximum profits is a constant principle for doing business. The banks are not stupid; they will not do any business that is not worth doing or will bring financial loss. So it is easy to understand that the disadvantages are far outweighed the by advantages of doing CSR”.

Interviewee CGB4 answered this question as follows:

“Although I am responsible for dealing with CSR issues in the PR office, I do not know how much financial profits CSR can bring to the bank. But I am sure that if we do not implement and disclose CSR, then the bank may lose some business opportunities, and face a penalty from the banking regulator. Moreover, doing CSR and publishing CSR reports can help the bank to be listed on the stock exchange smoothly, and keep growing and developing. As you know that anything may affect the bank’s listed issue will influence our financial interests”.

7.5.2 Influences of Stakeholder Relationships and Corporation Image

13 of 19 Interviewees, AF1, AF2, AF3, FB1, FB2, FB4, CC, U1, CGB1, CGB4, CCB3, CCB4 and CCB5 indicated that banks can build stronger stakeholder

relationships and increase corporate reputation through CSR programmes and through issuing CSR reports.

Interviewee AF1 worked as a senior manager in the risk advisory services department of an international auditing firm. She argued that:

“CSR activities can improve the existing relationships with the stakeholders and also may help on building new relationships with some particular stakeholders, such as the local government or a group of public people. Therefore, CSR can help the banks to reduce the risk of losing investors, customers, employees, and government's support. With increasing a number of associations and people paying attention to CSR issues, the banks' reputation also can be improved”.

Interviewee AF2, who is a partner of the same auditing firm as interviewee AF1 said that:

“Now we are providing CSR consultancy services to companies including banks. We are also auditing their CSR reports if they employ my firm to do so. Why would the banks like to spend money on this? The reason is that banks realized that CSR is becoming a significant issue which cannot be avoided anymore, especially by the listed companies. I think banks would like to pay for CSR services due to the positive influences it can bring to a corporation, such as better reputation, appearing as a trusted company by the customers, closer relationship with the government, or attracting more investment from investors. As an auditing firm, we love the idea of CSR. We can advise the companies to implement CSR activities and then improve the social environment. At the same time, we can make profit through these new services.

In my auditing firm, we also have specific staff who are dealing with our firm's internal CSR activities, and organise the staff to provide volunteer work, such as planting trees, supporting the poor, and saving the energy. However, be honest, I feel that it is not really necessary to employ some staff who are only responsible for internal CSR works. Because each manager can do it, and call on their team staffs to do this volunteer work. So I would like to push ordinary staffs to do CSR and then can change everybody's practice. It is much better than pay for a specific person. As a business partner, I have to consider this question from my perspective which is trying to save the costs, and employ the staff who are really essential”.

Interviewee AF3 who worked at the same auditing firm with AF1 and AF2 claimed that:

“I think everything banks do about CSR is to achieve the stakeholders’ expectation, and making them satisfied. As I said before, if the stakeholders, such as government’s regulators, stock exchanges, and foreign investors are dissatisfied with banks’ CSR activities, then it may bring financial losses and breach the stakeholder relationships. You must know how hard it is to build a trusted and good ‘Guanxi’ in China. So CSR can help the banks to establish a more stable trusted relationship, but if the bank does not follow the regulator’s direction then it also can breach a good ‘Guanxi’ with the regulators easily”.

Interviewees FB1, FB2 and FB4, who worked in foreign banks in China, felt that CSR is an important instrument to help integrate into Chinese society, and win social recognition and respect. Interviewee FB1 argued that:

“The Chinese government sets up strict rules and regulations to foreign banks, especially about the way to do business, the field of business, and scope of the business in China. For example, when we just entered the Chinese market, we could not provide private financial services and the Chinese money (RMB) services to our clients. Therefore, it is not that easy to be well known with the limited services which we can provide. But CSR activities helped us to advertise our brand in China. We can have close relationships with the local people if we do some good things for them first. Moreover, CSR helped the bank to establish good relationships with local government and industries. In other words, we are using CSR to narrow the gap between the local public, government, industries, clients and foreign bank. We do not want the Chinese people always to think that we are alien from the other world. Now we can see the good results from doing CSR from many of our branches in different cities. I am not saying that the local banks are not good enough, but we are proud to say that our services and facilities are in the top rank. Our good reputation and services have been recognized and accepted by the Chinese people”.

Interviewee FB2, worked in the same bank as interviewee FB1, he worked as Vice President and was responsible for doing the corporate banking business with partners

in China. He said that:

“Although I cannot define CSR or describe specific CSR activities in the bank, I do realize that CSR helped the bank to establish good relationships with the stakeholders, especially business partners, clients, employees and government. I remember that one of our business partners in China mentioned about our CSR report in our meeting, and was happy to work with us due to the bank taking good responsibilities on providing high quality services, doing good things for the local public, establishing close relationships with government. Moreover, the bank offers good welfare and does employees’ feedback research every year, in order to attract more professional people. Therefore, I think CSR really helped the bank to increase its reputation, improve relationships with stakeholders and close the gap between foreign and local banking”.

Interviewee FB4, who thought economic profit and social responsibility are consistent and complement each other, also emphasized that:

“In addition to the economic influence of CSR, I also think that it is an extremely important way to enter the Chinese market and improve our reputation. The Chinese local banks already run the business and occupied the market for hundreds of years. And there are many local protection policies. Therefore, as a foreign bank, it is not easy for us to win recognition from the government and public. CSR seems to be an instrument to show that we have good faith to become friends with the Chinese people, and would like to do good things to help social development. CSR has a positive influence on brand reputation, and local relationships”.

Interviewees CC and U1 were professional and academic people in the CSR research and consulting areas. Their arguments on CSR influences were shorter, but more critical than other interviewees. Interviewee CC argued that:

“all the banks are trying to have positive performance on social responsibility, and then win a good corporate image. It is no doubt that doing CSR is a good activity for a corporation, and can have approval from some stakeholders, but please do not to be too blinded. Banks need the right strategy, not only to put all the donation information into the CSR report in order to show off every

contribution and amount of money donated in the CSR reports”.

Interviewee U1 treated this question also from a different perspective to other interviewees who work for banks. He said that:

“CSR activities influence the ‘Guanxi’ between a corporation and the stakeholders, such as shareholders, investors, employees, customers, suppliers, government, the public and the media. All of the banks in China consider CSR as a good way to please the government, to stabilize relationships with employees and customers, and to attract investors. Recently, big and rich companies such as banks, government state-owned enterprises, or international corporations must have a business activity which is relevant to CSR in order to prove they are good enough. In other words, maybe CSR means good citizen, good reputation, and close ‘Guanxi’ with some stakeholders. Moreover, you have to tell, show and disclose what you have done on CSR in China. Otherwise, nobody will pay attention to your business”.

Interviewee CGB4 felt that the CSR influences on stakeholder relationships can not be treated as a separate part from the financial influences. She said that:

“I never think about CSR issues carefully. Moreover, it is very shaming to say that I only have one copy of CSR reports, and have a script to answer most of the general CSR questions from the media. I am definitely sure that I know the answer about this question. And I think financial influences link with stakeholder relations. As a government state-owned bank, we do not need to think too much about using CSR to establish good relationship with the government and build the bank’s public recognition, due to the bank is being founded by the government quite a long time ago, and many government’s big enterprises are using our bank card to pay salary or welfare fees. But we still need CSR to meet the requirement from some specific regulators and make them satisfied with our performance. We do not want to breach the relationship with the regulators only because the negligence on CSR”.

Interviewee CCB4 said that:

“The bank I work for is not a government state-owned bank, and does not have a strong political background. It just is a normal commercial bank which would like to have a good relationship with government,

regulators, and the public. Recently, the Chinese government is pushing CSR and saving the environment. So it would be easier to win government's and regulators' support and approval if the bank has outstanding performance such as green lending policies, and green financial products. Moreover, our outstanding CSR performance is always mentioned and praised by regulators as a good example in the banking industry. Sometimes they invite the bank's CSR staff to join their CSR meetings, in order to share experiences. Therefore, we sacrifice part of the lending businesses. But we establish good 'Guanxi' with stakeholders, especially government and regulators. In addition, the public have started to know our bank's name from any reports about CSR, green financial products, green lending, green environment, and sustainable development in the banking sector".

Interviewees CGB1, CCB3 and CCB5 gave quite short and similar answers to this question. Their answers can be summarized as: (1) CSR can help the banks to improve the relationships between the bank and government, especially government regulators which relate to the banking industry; (2) CSR can improve the relationship with investors, especially foreign investors; (3) CSR can establish a better relationship with the stock exchange market, in order to avoid the risk of being suspended; (4) good CSR performance will help the bank to win public recognition and higher reputation.

7.5.3 Personal Effects of CSR

There were two interviewees FB3 and CCB1, who did not have any particular opinions on how CSR influences the corporation. The author realizes that both of them worked as private financial advisers at the banks. They emphasized that their first mission is achieving the selling target of the financial products, not implementing CSR. Interviewee CCB1 argued that:

"I think CSR maybe influences our office environment, such as saving the paper and energy. Moreover, the bank is trying to

persuade us to donate more money when a disaster happens. I am not sure is it the appropriate CSR activity for employees? I think the amount of money we can donate is going to be put into the CSR report. Maybe it is a very important factor in the report for getting higher ranking. But I do not think CSR affects us to be more responsible for our clients' investment. We still think achieve the sales target is the first mission, and at the same time we can get higher bonus. However, we do not really care about what will happen after selling the financial products. Actually sometimes we do not have confidence with the financial products or funds we are selling. So I think this kind of irresponsibility may lead to a financial crisis”.

Interviewee FB3 gave a similar argument to CCB1. She noted that:

“my working responsibility is providing financial services to my private banking clients, and selling more financial products to them; in order to get a higher bonus. So I do not feel CSR has much influence on my daily work. I think that maybe my clients are not interested in the bank's CSR information either. By the way, I remember that the bank organized a public welfare event and asked all of us to plant trees in the country side. Maybe this is one of the CSR activities which influence employees”.

7.5.4 Summary

The author expected that interview answers would relate to how CSR influences business behavior, daily operations, the way the business is run and dealing with stakeholders. However, the outcome of the interviews seemed not to focus on what the banks actually do or how CSR influences their behavior. The majority of the interviewees, including the interviewees from foreign banks assumed that the reporting and implementing of CSR could add value to financial performance in the long term, could enhance the business's reputation, and improve stakeholder relations and especially could avoid government regulators' penalties

More than half of the interviews believed that CSR would increase costs, and might lead to decrease in a business's short term profit. But they also emphasized that CSR is

a tool to create value in the long-term. It is interesting that interviewee CCB4 raised the issue of ‘sacrifice’ in the sense of loss of part of the lending business by implementing the Equator Principles, in order to win popularity and approval from the stakeholders. There were two interviewees who described themselves as not having any opinions on how CSR influences, and they felt that CSR did not affect the way they were selling financial products, and dealing with clients. The author felt that they were worrying about selling financial products, and lacked confidence in these products as they did not know what was going to happen after the clients purchased them. They worried that this kind of irresponsibility could lead to a bank or financial crisis in the future.

7.6 The Motivations for Giving CSR Guidelines from the Regulators and the Banks’ Decision on Adopting Guidelines

The author moved the question to the motivations for giving CSR guidelines in China after asking the interviewees about the meaning, and motivations for implementing CSR, and the influences of CSR. The following section will list the answers from seven of 19 interviewees regarding the motivations of government’s regulators to propose CSR guidelines, and how the banks made the decision on which guidelines they would like to adopt. There were 12 interviewees who declined or avoided answering this question, and they gave the reasons for their responses as: (1) the interviewees do not have enough knowledge on which guidelines were issued by which particular regulators; (2) the interviewees were not involved in making the decision on choosing which guidelines should be applied; (3) the interviewees felt that this question was quite sensitive, due to the need to give an opinion on the government’s regulators’ decision, and the bank’s top management decision.

Therefore, they were worrying about the possibility of saying something wrong.

Seven of the 19 interviewees who gave answers regarding these questions are AF1, AF3, FB1, CCB4, CGB4, U1, and CC. Within these seven interviewees, three were interviewed in 2013, and were forthcoming in sharing their personal opinions with the researcher when an interest was expressed in finding a CSR related job in China. Therefore, the following section will be classified into two sub-sections; one comprises the interviewees who were interviewed before 2013, and other category is the interviews conducted in 2013.

7.6.1 The Interview Answers Obtained from Four interviewees before 2013

Interviewee AF1 considered this question from the risk management perspective due the nature of her work. She claimed that:

“As I know that the Chinese stock exchanges and China Banking Regulator Commission have issued the CSR guidelines. If you ask me why they gave the CSR guidelines, then I will consider it from the risk management perspective first. I think if the banks do not care about the social responsibilities, and then the risk and harm brought by bank’s scandal will be serious and dreadful for a country. Secondly, the government is encouraging banks to take responsibilities to the stakeholder group, such as shareholders, employees, and clients. As to how the banks choose the CSR guidelines to be applied in the report, although I do not work as a banker, I think the banks will more prefer the global guidelines such as GRI guidelines, due to it looking more consistent with globalization and more acceptable by the foreign investors”.

Interviewee FB1’s response to this question was as follows:

“As a foreign bank, we have published CSR reports for several years in other countries. And we know that there are many countries’ regulators who have issued CSR guidelines. Therefore, we do not feel it is newness for the Chinese regulators to give the CSR guidelines

now. I think it is very normal for issuing the CSR guidelines in a growing society and developing industries. From the government perspective, they are facing the pressure from different sides such as international media, western countries export requirements and queries. Therefore, government has to consider many social and environmental issues for the sensitive industries such as the energy industry, export industries and the banking sector. It is a good sign and right attitude from the Chinese government. It is much better than do nothing and keep sacrificing the environment.

Regarding to how we choose the CSR guidelines to be adopted. As you know that the bank I work for is an international bank, so we certainly apply the GRI guidelines which is more specific and reflects an international orientation. But we also have to take concern of the local guidelines, especially in China, we should follow the Chinese government's recommendations and try to be local as well".

Interviewee U1 said that:

"I had spoken with somebody from the government office about the motivation for issuing CSR guidelines from the government regulators. But I am sorry I cannot tell you that who I spoke with. As you know that it is always sensitive when we talk about the government's decision. I think the most important motivation for issuing the guidelines is the political direction from the central government. Now the Chinese government is proposing Green GDP, saving the environment, and learning experiences from the world economy crisis in order to establish the Chinese stabilized banking system. Therefore, CSR is a perfect topic to match with the ideas of green, sustainable development and harmonious society".

Interviewee CC who worked as a CSR consultant had a similar opinion regarding this question as U1, he said that:

"The most important motivation for issuing the CSR guidelines is the direction from the government's top leaders. The awareness about saving the environment and taking social responsibilities from the government and public are increasing. Then the trend of issuing legal regulations or guidelines from the Chinese regulators is increasing as well. I think the attitude of the bank on implementing CSR and choosing CSR guidelines is dependent on the decision from the bank's top management. For example, some of the bank's presidents are keen on pushing CSR and then they will encourage their staffs to

learn more about CSR activities and guidelines. Otherwise, implementing CSR will only be treated as a superficial project in order to meet the inspection from the regulators. Moreover, I think the banks will choose the CSR guidelines to be adopted according to their origin, current region, and the nature of the bank, such as local or foreign, government state-owned or commercial”.

7.6.2 The Interview Responses from Three Interviewees in 2013

Interviewee AF3 was happy to share her personal opinion with the author when they had lunch in the restaurant. She said that:

“I think from the government perspective, the government is facing the pressure from the foreign media and international market such as pressure specifically on the environmental, labor, and food safety issues. Therefore, the government’s regulators would like to issue the CSR guidelines for stimulating corporations to implement CSR and disclose CSR information on an individual report. The stock exchanges issued the CSR guidelines, due to they are more concerned about stakeholders’ interests, especially shareholders. The stock exchanges are the most powerful institutions to regulate and encourage the listed companies to take responsibilities. In addition, I think the motivations for the Chinese Banking Regulatory Commission (CBRC) to issue the CSR guidelines is because this regulator is the most effective and specific institution for the banking industry. And the banking sector is a very sensitive industry which links with the national economic and public finance. Therefore, CBRC should give the CSR guidelines to emphasize the banks’ responsibilities and consistent with the proposal from the central government. If I am the boss of a bank, then I will choose the international CSR guidelines to be adopted, due to it having more detailed and specific indicators. As I know, the disclosure indicators in CSR guidelines from the Chinese regulators are quite general, and not very specific. I think that’s why now almost all of the banks are using the GRI guidelines”.

Interviewee CCB4 claims that:

“In my opinion, there are two approaches to push corporations to implement CSR. The first one is the regulation from the government. Second one is the financial return. In other words, if implementing CSR can bring huge financial profits to the corporation, then they would love to do it. However, actually CSR is an extra cost for

corporations, and nobody can guarantee or calculate the profits which will be brought back from the CSR activities. Therefore, it is easy to see that the best way to push CSR is the regulation from the government. But it is difficult to issue any regulations on CSR at the current stage. So the regulators such as CBRC and stock exchanges have issued the guidelines as a good start. These guidelines are trying to be consistent with the international guidelines and the indications from the central government. On our CSR reports, we state that the bank is applying GRI guidelines when we disclose the information, and also according to the principles from the China Banking Regulatory Commission, China Banking Association, and Stock Exchanges. To be honest, I do not know why we write like this because I am not working at the department which is dealing with producing the CSR reports. I guess that reporting according to all the guidelines from international and local regulators will make our bank look more professional, part of globalization and show that we think highly of CSR issues”.

Interviewee CGB4 worked at a government state-owned bank and she said that:

“Actually, I do not care too much about why the regulators issue the CSR guidelines, because there are so many different regulators issuing hundreds of different guidelines in each year. So we do not have time to think too much about why they decide to issue it. As a government state-owned bank, we only can implement what the government suggests and try to be a leading example in the banking industry. If I must give an answer about this question, then I would like to say that the central government direction such as building a harmonious society is the key motivation for regulators to issue the guidelines. Our CSR reports have been produced based on the guidelines from the China Banking Regulatory Commission, China Banking Association, China Stock Exchanges and GRI guidelines. Maybe the department which has made the decision on adopting all of the guidelines worried that if we only apply one guideline from a regulator it will offend other regulators. You know that ‘Guanxi’ is always complicated in China”.

7.6.3 Summary

The majority of interviewees declined or avoided answering the question, which related to motivation behind the provision of CSR guidelines showed the evidence that due to three main reasons: lack of particular knowledge about specific guidelines; lack of involvement in choosing which guidelines to adopt; or a sense that the matter

was too sensitive to give an opinion on the government's regulators' and bank's top management's decision.

Nevertheless, there were seven interviewees who were happy to talk about this topic. These interviewees explained the motivation from a range of new perspectives: the risk management perspective; the government pressure perspective and the political direction perspective; and also a concern about stakeholder interests. Interviewees also claimed that almost all of the banks who adopted GRI guidelines, and who complied with local regulators principles did so, in order to prove that the bank is more professional on CSR and as part of a response to the pressures of globalization.

7.7 Who are regarded as the most important stakeholders and are there any Cultural or Political Influences on This Decision?

All of the 19 interviewees expressed in explicit or implicit ways that the government is the most important stakeholder in China. Some of them only gave a sentence for answering the question, such as “of course it is the government”, or “the government is the big boss in China”. The interviewees emphasized that government is the most important stakeholder, therefore establishing good ‘Guanxi’ with the government is the key factor for most businesses to achieve success in the Chinese market. Su et al. (2006) raised the argument from the stakeholder perspective regarding to who and what really counts? Su et al. (2006) argued that not all ‘Guanxi’ relationships are necessary, and not all have the same important in achieving the business's objectives. They suggested that the business should identify what ‘Guanxi’ is necessary, and what ‘Guanxi’ is more important in doing business in China (Su et al., 2006, p.315).

Six of 19 interviewees gave detailed answers regarding the stakeholder question; they are AF2, FB1, CCB4, CGB3, CGB4 and P. Interviewee AF2 considered the stakeholder question from her business partner perspective, and noted that:

“As the business partner of one of the big four auditing firms, I have to say that government is the most important stakeholder for all of the businesses in China. In my opinion, the banks must also first be concerned about the government’s direction when they make a business decision. And they should see government as the most important stakeholder due to being centrally controlled by the central bank which is called the People’s Bank of China (PBC). The PBC is playing an important role in China’s macroeconomic management, and also drafts laws and regulations for the banking industry.

Regarding any cultural or political influences on a stakeholder ranking decision, I can say that all of the business’ decisions which are being made in China have to show concern about the local cultural and political background. In other words, if you want to play the game, then you must follow the local rules. I think it is an obvious principle. The Chinese ‘Guanxi’ theory is a big lesson we should learn in China. For example, we have to establish good ‘Guanxi’ with the government regulators who are responsible for supervising our business sector. Moreover, we also want to have government support and approval, in order to build a good public image and have a competitive advantage. Maybe it seems like too political in Western countries, but we think it is the normal culture in China”.

Interviewee FB1 emphasized the importance of government approval in China, she said that:

“The Chinese cultural and political environment already strongly influences our business strategy and decision. It is not that easy to be accepted by the Chinese public in China. So we have to put the government at the most important level of stakeholders. As a foreign bank, we keep trying to be seen as local, and be recognized by the Chinese people. This strategy cannot be implemented without government approval. If the Chinese government accepts our bank, then the Chinese media will report our bank in a positive way. So our top three stakeholder rankings are government first, shareholder second, and then media. If we establish the good “Guanxi” with the local government and media, then the Chinese clients will trust our bank as an ethical and reliable financial institution. We hope that they

will do more businesses in our bank, such as savings, loans, or financial products”.

Interviewee CCB4 told the author that:

“The bank has joined the Equator Principles, pushed green lending and sold green financial products. All of these business activities are trying to take the government’s fancy. As a medium sized commercial bank, we do not have strong government backing like the state-owned banks. Therefore, we have to gain more government support by implementing the regulators’ guidelines, in order to expand the business. So it is no doubt that the government is the most important stakeholder. The government always say ‘with the Chinese characteristics’. You can understand that progress in China cannot be made without being concerned about the cultural and political issues”.

Interviewees CGB3 and CGB4 both worked for government state-owned banks. They had similar opinions on this question. Interviewee CGB3 said that:

“This bank is a government state-owned commercial bank. We are directly under the central committee and the state council. We have to follow the guide from the central government. Our main business responsibility is providing support to national priority projects, such as the power grid and the highway network. To be honest, we are not concerned that much about any cultural or political influence, due to felling that we are part of the government department”.

Interviewee CGB4 claimed that:

“The bank I work for is one of the big five government state-owned banks in China now. Moreover, as you know, I am working in the Beijing office. The Chinese people always say that Beijing is the heart of the country, and is the political and cultural center. So you can imagine how important the government is to the bank. Although we do not have to curry favor with the government, since we already have a long history of government support, we still need to follow the government’s direction and be cautious about any wrong business decision. Because we are supposed to be a good example in the banking sector, and if we make a wrong business decision which leads to public financial losses, then everybody will think it is the government’s mistake. In other words, the Chinese government state-owned banks represent the government in some degree”.

Interviewee P answered the question as follows:

“The government is the most important stakeholder, not only for the banking industry, but also for all the sectors in China. I think the ultimate reason is because the government controls most of the important industries, such as energy, finance, and export. We have the Chinese model of government state-owned enterprises. And the private commercial corporations are not allowed to compete with them. I think this is the Chinese characteristic under the Chinese cultural and political background. Actually, I am questioning that if the government is the most important stakeholder for all the sectors, then the government should take the most and first social responsibilities, such as saving the poor and donation for disaster. But the real situation is that the corporation and public always have to take the most responsibilities. As a staff member at the university, I also have to donate when the disaster happened. I am not happy that the donation was not voluntary. The university regulated the amount of money we have to donate”.

The following section will discuss the interview answers about the lending decision from three interviewees CCB2, CCB4 and CGB4. The other 16 interviewees all claimed that they could not answer this question, due to not having enough knowledge or experience on lending criteria and decision making procedures.

7.7.1 Summary

Stakeholder theory was the main theory of the research, and the interviewees were asked to identify the most important stakeholder in China, and to explain any cultural and political influences on making this identification. All 19 interviewees expressed that the government is the most important stakeholder in explicit or implicit ways, and answered the question by reference to key stakeholder interests, Chinese ‘Guanxi’, and local political economic context. For example, interviewee AF2 considered the

cultural and political influence from the Chinese ‘Guanxi’ perspective, and described it as the normal culture and local rules in China. Some other interviewees also emphasized that winning the government’s approval and support is the key way to survive in the Chinese market, due to the central governments’ control of most of the important industries, such as media and finance. Moreover, the government is the most powerful party as it holds the rights on making awards and extracting penalties particularly in the commercial area.

In contrast with the commercial and foreign banks’ concerns, the Chinese government state-owned bank interviewees gave expression to being less concerned on cultural and political influence, as they saw their organisations as part of the government. But they were more concerned about how to be a good and leading example in the banking sector.

7.8 Consideration of Factors affecting Lending Decisions

The interviewees CCB2, CCB4 and CGB4 told the author that they are involved in the banks’ lending procedures. CCB2 stated that:

“I am responsible for getting more savings from our corporate banking clients, and then lending the money out to the businesses which we can trust. When we try to get more savings, we do not care about what kind of business they are doing. We only care about how much money they can save in our branch. However, when we lend the money out, we have to consider many factors, such as their capability to pay back, and what kind of business they are running or plan to do. We will also be concerned about whether the business is going to damage the environment or harm the public interest. We make our lending decision by referring to the green policy from the Central Bank. Actually, the truth is that a company which cannot meet the green policy requirement from the Central Bank has a higher capability to pay back. I am not saying that I agree to sacrifice the environment, but most of the rich companies are bringing more or

less damage to the environment and public interest in China. So normally, we must measure the level of the damage before we sign the lending contract”.

Interviewee CCB4 gave an interesting answer to the author from his personal experience and work background as follows:

“I would like to answer this question by telling my story first. Before the 2008 financial crisis, banks employed more than 10 new employees each year. However, after the financial crisis, all the banks stop employing any new staff. I was so lucky that my postgraduate degree supervisor introduced me to this bank before the financial crisis, and then I had an opportunity to take a four months training programme at the bank. Moreover, the bank set up the partnership with International Finance Corporation (IFC), and also started to apply the Equator Principles from October 2008. Therefore, the bank thought that I was the obvious person to work on this new area, due to my having studied an environment finance course at the university. And I had already worked at the bank for a few months, so was familiar with the working environment. Even now, I still rejoice that I got the job before the financial crisis.

The story about our bank’s green lending criteria is that the IFC came to speak with our bank first, and offered investment in the bank to help us to improve our lending standards and promote green lending. And then the IFC became one of the bank’s shareholders. Later, when all the shareholders had meeting in Hong Kong, IFC talked about the Equator Principles which drew the bank president’s attention. The president felt that the Equator Principles are a very interesting topic, and a good idea to expand the business in the future. Finally, they made the decision to try to apply the Equator Principles and see what it could bring to us. Then the bank announced the decision to all the branches that all the lending decisions should made by considering Equator Principles standards, such as environmental and social risk standards.

Interviewee CCB4 gave a sigh after he told the above stories and then continued, saying:

“But you know that implementing any new idea is always not that easy. We hired a third party to examine and audit the credit risk of enterprises which would like to borrow money from the bank, in

order to simplify the procedure in the bank. However, there are still a lot of colleagues who do not understand why we are doing it, and also do not want to co-operate with my team. In their opinion, the Equator Principles will not bring any contribution to the lending business and their own bonuses.

I can understand that it is not easy for a corporate banking manager to find lending clients. And it is also very difficult for the lending clients to meet all the standards from the Equator Principles. That's why the banking managers and clients hate the Equator Principles very much. I still remember that there was a factory which complained to me that it is troublesome to borrow money from our bank, due to the fact that they have to work with the third party institution we hired and also have to meet the standards from Equator Principles. The factory questioned me that why only my factory has to pass the silly credit risk check? And the boss of the factory claimed that he knew many factories in the same industry that did not pay much attention on saving the environment and employees' working environment. Therefore, the boss felt that it was really unfair and unnecessary to be regulated by the Equator Principles. Moreover, the boss said there were many other banks which would like to offer them the loan. Actually, this factory decided to choose our bank first only because they have personal "Guanxi" with the bank. But finally, the factory decided to borrow money from other banks in order to avoid the trouble which was brought by the Equator Principles.

Then the author asked the interviewee CCB4 to further discuss about why the bank still implemented the Equator Principles after realizing this activity may lead to losing lending clients. He answered:

"We are still doing this because the benefit is more than cost. So far, we have gained government credit and support, good business reputation, and new business partners by pushing the Equator Principles and implementing CSR. Therefore, we still think that the ideal of green lending brought new opportunities to the bank. But it is true that it also brought trouble to the corporate banking staffs, especially to their lending businesses".

Interviewee CGB4 discussed this question from the government state-owned bank's perspective, and she said that:

“We do not have much of a lending target in the bank, due to being a government state-owned bank. We already supported many government projects by lending. So we are not concerned too much about the lending projects to many small business in China. I also know of green lending standards and the Equator Principles, but we do not have to consider them that much when we investigate the government’s projects. As you know that if the government is trying to push the projects, even it is some degree of pollution, we still will support it anyway. Therefore, we are not working in the same way as the commercial banks which are using green lending as a strategy to attract investors, or new businesses”.

7.8.1 Summary

There were three interviewees who were involved in the bank’s lending procedure and would like to give their opinions on factors affecting lending decisions. Interviewee CCB2 stated that they consider and measure the level of damage to the environment or to public interests before making lending decisions.

It is interesting that interviewee CCB4 described himself as a middle person who was facing pressure from top management which was pushing adherence to the Equator Principles, and who also had to deal with complaints and blame from two other parties: the colleagues who were responsible for the lending business, and the clients who had to pass the Equator Principles standards to get the loan. He claimed that he could understand the reasons for complaints from colleagues, as they were only concerned about lending money and their bonuses. He also could understand the complaints from the clients, as the clients felt it was so troublesome to borrow money from the bank. However, he still had to follow the top management’s direction to push the Equator Principles, and he really hoped that this kind of conflict could be solved in the future by unifying the stakeholder interests.

7.9 Suggestions on CSR Improvement

There were 11 interviewees who gave suggestions on future improvement of CSR based on their working environment and experiences. Three of them worked at auditing firms, three worked at foreign banks, two were working for the Chinese commercial banks, and one worked at the Chinese government state-owned bank. The remaining two interviewees were the academic professor and CSR consultant.

7.9.1 Suggestions from the Interviewees at Auditing Firm

Interviewee AF1 and AF2 both agreed the point that everything needs time to prove and improve. Interviewee AF1 said that:

“There are many CSR Associations in China, especially in South of China. They are very active on CSR in China now; they have the strong support from the government. So I suggest that corporations get advices or CSR information from these kinds of Associations. CSR Guidelines should be issued for many other industries, such as in Education Industry. Maybe in two years time, CSR report is a general report for almost of the corporations. Local government should use media and some education methods to let the people understand and accept CSR. It is easy for corporations to produce the CSR report, but it is difficult for them to fully understand the benefits of CSR activities, and apply it into their normal business procedures. Everything needs time to prove and improve”.

Interviewee AF2 claimed that:

“The banks should understand what CSR is, and how to do it. The government also has responsibility to teach and guide corporations to implement real CSR. Not only focusing on philanthropy and donations to disasters. Different stakeholders in the organization have different responsibilities. So everybody should understand their own responsibilities, such as save the energy, save the environment, responsible for lending decision, responsible for clients, or responsible for employees. We can understand that learn and improve CSR need time and efforts. It is not one day project. But we should not unify the responsibilities as one. CSR should become a conscious activity, not a tool for getting the support and praise from the government”.

Interviewee AF3, who was interviewed during the final interview stage, claimed that:

“I suggest that CSR should not only be an academic topic. We should not only learn it from the book or guidelines. We should realize that it is a business behavior, attitude and strategy. But it is not easy to realize this by the companies themselves, due to they will not see huge profits from doing CSR at the recent stage. Therefore, the government should set regulations to regulate and push some of the CSR activities, such as green lending, save the environment, and improve working environment. But the government should not force the corporations to donate money by regulating CSR. This kind of enforcement will make us feel that CSR is only philanthropy”.

7.9.2 Suggestions from the Interviewees at Foreign Banks

Interviewee FB1, FB2, and FB3 all came from foreign banks in China, and FB1 and FB2 who worked at the same bank both emphasized the importance to provide CSR training by the government and publish the CSR guidelines to push implementing. FB1 stated that:

“I think China does need some CSR professionals to encourage the CSR performance, and also need the government to provide training in order to push CSR. I think it is a good sign for CBA to give this guideline, at least it means the government already realizes the essential importance of CSR. However, we feel that the CBA also does not know what CSR is and how to implement CSR, because if CBA really tries to encourage CSR then CBA should set some of training programme to educate the financial institutions on CSR knowledge, and CBA also can set some conference for banks to exchange the CSR experiences. Currently it is not the right time to set a regulation for CSR, CBA only can start with the guideline, so there are many banks who do not know how to make the CSR report and implement the CSR activities; I think a training programme would be very helpful at this stage”.

Interviewee FB2 gave the suggestions as:

“The Chinese government should provide some CSR training programme to the banks’ top management, in order to educate the knowledge of CSR. Then the managers can organize the second training for their staffs. I think it is necessary to issue the CSR guidelines, but not only for banking industry. But at the recent stage,

I still think survive is the first task for foreign banks in China, so I suggest that if CSR does help on surviving then we should focus on it. But if making more profit is the best way, then we should not spend too much on donations”.

Interviewee FB3 suggested that:

“CSR should become a kind of business idea, culture, and voluntary commitment for the Chinese corporations. The government, organizations, or associations should give some CSR sessions to the bankers, at least, let us understand what is CSR, and how it effects our work? So I think CSR education is the next stage in China”.

7.9.3 Suggestions from the Interviewees at the Chinese Commercial Banks

Interviewees CCB1 and CCB4 considered further improvement from the commercial banks perspective. Interviewee CCB1 said:

“I do feel CSR should become our business culture, not only the simple word or slogan. At the moment, CSR policy is against our profit maximization policy, due to we have to concern about responsibilities when we sell the financial products irresponsible. Therefore, I suggest that the CSR should implemented by everybody in the bank, not only on the face of the top management and in the CSR report. The bank should educate all the employees to be responsible for our clients, environment, and society as whole. Then we will become to love CSR instead of being against CSR”.

Interviewee CCB4 suggested that:

“I can conclude my suggestions as three key points. They are education, regulation and balance the interests. First of all, I suggest that the government’s regulators such as CBA should provide more training to the banks, even the training is not for free, but we still would like to pay for it. Because it is impossible to implement CSR without understanding. Secondly, as I said before without regulations, nobody will be happy to spend money on activities which cannot bring huge profits back in the short term. Because we cannot forecast what is going to happen about the economic environment and trading policies in the future. Therefore, the regulations are the key for implementing CSR. Thirdly, I think we should consider how to balance the interests between bank’s financial profit, employee’s targets and bonus, and the government’s guidelines or standards such

as the Equator Principles. This suggestion is raised from my working experiences, due to the fact that I am suffering under this conflict. I feel that I am the middle person who is working in the gap. It is difficult to face to my boss's order, and my colleagues' complains when I try to promote the Equator Principles".

7.9.4 Suggestions from the Interviewees at Government State-owned Banks and Academic Areas

Interviewee CGB4 is the only interviewee who worked at a Chinese government state-owned bank and answered this question. She said:

"My suggestion is the government should set a regulation to regulate some CSR issues, such as lending policies to all the banks. Now the situation is that only the government state-owned banks have to fully implement CSR guidelines in order to be a good example in the banking industry. I think everybody should be the same. But I can understand that it is impossible to motivate other banks to implement CSR without education and training. I hope the government and the banking associations can realize that they are not only responsible for issuing the guidelines, and collecting the CSR reports each year. They should also organize training sessions or provide opportunities for the banks to study, improve, and exchange experiences".

Interviewees U1 and CC did not work for any bank, so they stated that they gave the recommendations for CSR further development from institutional and stakeholder perspectives. Interviewee U1 argued that:

"We should not focus on comparing which corporation donates more money to the society or disasters. All the industries are still developing at the recent stage in China. Everything needs to be developed and improved. There is no perfect system of society; no matter we are under a capitalism market or socialist. If we are trying to develop socialist public welfare, then it is difficult to achieve market economy. In other words, the government should encourage corporations to maximum profit first, and also understand the real corporate responsibilities, in order to have higher ability to take more social responsibility".

Interviewee CC said that:

“In my opinion, the government is the policy maker, promoter, and supervisor on CSR. Government state-owned enterprises have responsibility on leading CSR activities, in order to give a guideline to other small business. The Chinese government is the most important stakeholder for the corporation. Therefore, if we want corporations to implement the real CSR, then the education and motivation from government is the key. The government should organize and promote theoretic and academic seminars within and between institutes, academies and nations, in order to give more opportunities for corporations to improve their CSR”.

7.10 Conclusion

This chapter presents the results of the interviews from 19 interviewees according to the interview guide and researcher’s theoretical perspective. The stakeholder perspective for understanding, motivations for CSR and its influence appeared quite helpful. Although some of the interviewees declined or were afraid apparently to answer some of the questions and appear to give their real opinion, the majority of interviewees were helpful and friendly to the researcher after establishing the trust relationship, which is called “Chinese Guanxi”.

The important message to be drawn from the interviews is that CSR mainly means ‘philanthropy’ in China, and only interviewee AF3 defined CSR with having the same meaning as sustainable development; and she believed that the meaning of CSR has changed from being surface philanthropy to a business developing strategy. She also mentioned stakeholder engagement, which included awareness of internal and external stakeholders.

The majority of interviewees agreed that the government is the most important stakeholder in China under the local cultural and political backgrounds. Meeting the government’s requirements, obtaining the government’s approval, and trying to be

legitimate have become the key ways to survive in the Chinese market. This is also the main reason for banks to implement CSR and disclose CSR information.

Most interviewees claimed that the central government was pushing companies, especially state-owned enterprises to publish CSR reports as a way to meet stakeholders' interests, and to improve the reputation and competitiveness of businesses in China. For example, government regulators, in the form of the Shanghai and Shenzhen stock exchanges, increasingly require listed companies to disclose their more significant CSR practice and impacts, and they encourage companies to hire a third party to provide assurance for their CSR reports, in order to enhance reporting quality. Interviewees emphasized that the banks did not want to breach the relationship with the government regulators which could lead to a financial penalty, or, in an extreme case, being suspended from the stock exchanges. In other words, it was thought that the banks wished to avoid any penalties due to negligence of CSR guidelines or regulators requirements.

The interviews addressed the question of how CSR influences a bank's performance and behavior. The majority of interviewees appeared to find it was difficult to engage with the question of how CSR was changing behavior; the question tended to be answered by referring to the assumed results of implementing CSR such as improving business reputation, stakeholder relations, and bringing financial profit in the long-term.

Interviewees who worked at foreign banks believed that CSR was a pathway to help to enter the Chinese market, and it was the best strategy to make the bank to be

acceptance by the public and the government as a local institution. Interviewee FB1 emphasized the importance of the media in China. She claimed that the media was controlled by the government, especially the new media, such as the internet which is playing an increasingly important role in giving a voice to the general public. Therefore, foreign banks are more concerned about establishing a good relationship with central government, local government in each province and the media, in order to set up new branches, expand business and win a good reputation.

The interview evidence from the interviewees who worked at the Chinese commercial banks shows a consensus that commercial banks saw themselves as lacking government background and support when compared to the state-owned banks. Therefore, the commercial banks followed the government's direction and implemented CSR as a business strategy, in order to establish a close and good relationship with the government agencies which regulate the banking sector. Interviewee CCB4 described their green lending activity as a 'sacrifice' strategy, which gave up part of the lending business and lost some of the lending clients by implementing the Equator Principles. He also explained that the senior management of the bank have realized that sacrificing part of the small businesses would bring a better image in the eyes of regulators. Moreover, the regulators invited the bank to attend the CSR or sustainable business meeting or award every year which means a high approval by the government. In contrast to the foreign and Chinese commercial banks, the interviewees from the Chinese government state-owned banks gave the impression of being less concerned with establishing a close relationship with the government and gaining cultural and political influence by implementing CSR. This seemed to be because they are treated, and see themselves, as part of the

government's financial department and therefore they automatically are involved in financing many large scale governmental backed development projects.

One of the main suggestions from the interviewees is that it is urgent to provide CSR education for enterprises, including the banking sector. The majority of interviewees agreed that it was easy for corporations to publish CSR reports by following a format, but it was difficult for them to fully understand the benefit of CSR and how CSR could change their business behavior. Interviewees suggested that the government regulators could educate about CSR and spread knowledge through media, such as internet training sessions, in order to decrease the costs of organizing conferences and seminars. Moreover, many interviewees such as CCB1 and CCB4 emphasized that implementing CSR was in conflict with staff objectives which are focused on meeting sales targets and getting more bonuses. For example, staff who were responsible for the lending business did not want to implement the green policy, due to the lending clients possibly choosing other banks in order to avoid the green policy credit check. It is noteworthy that interviewees said that staff might switch to other banks which did not implement a policy such as the Equator Principles in order to make it easier for them to do lending business and get greater bonuses. It has been suggested, in contrast with the Western employees who would like to work for the corporation which takes social responsibility and saving the environment(Stuebs and Sun 2010), socially the Chinese employees seem to prefer to work for a corporation which is less responsible but has higher bonuses. Therefore, the majority of interviewees strongly recommended that it was really necessary to unify the stakeholders' interests, and balance between the bank's financial profits, reputation, employees' targets and bonus, regulators' requirements and clients' interests. The following chapter is the last part of

this paper which concludes the empirical findings from the content analysis and interviews according to the theoretical frameworks.

Chapter 8

Conclusion

8.1 Introduction

This final chapter concludes and outlines the major areas covered in this thesis. It highlights the key findings from the empirical work and considers them in relation to the different main theoretical perspectives. Moreover, this chapter will highlight the research contribution, discuss the limitations of the research and make some recommendations for future research.

8.2 Summary of Research

The thesis consists of eight chapters. Chapter 1 presents a general introduction of the research aims, research questions and thesis structure. Chapters 2 and 3 provide respectively a literature review of Corporate Social Responsibility (CSR), and an underpinning background about China and CSR in the Chinese context. The theoretical framework, research methodology and methods are discussed in Chapters 4 and 5. The study employed content analysis as discussed in Chapter 6 and semi-structured interviews as reported in Chapter 7 to examine and analyse: the development of CSR disclosure; participants' understandings of CSR; and motivations to implement CSR in the Chinese banking industry. However, by adopting legitimacy, institutional and political economic perspectives as other theoretical bases, the study examines CSR in Chinese banking at differing levels of resolution whilst nonetheless emphasising the role of stakeholder management, and participants' views that the most important stakeholder in this context is the Chinese government.

This section of the thesis discusses the key findings which were generated from the content analysis and semi-structured interviews. The content analysis in the form of a GRI disclosure index examined the entire population of the first 55 CSR reports issued by 19 banks in China which include Government State-owned banks, Joint-equity Commercial banks and foreign banks from 2005 to 2009 inclusive. More research information and insights were obtained through the semi-structured interviews which were conducted on four visits to China before and after the analysis of the CSR reports, between July 2009 and March 2013. The semi-structured interviews were carried out with various stakeholder groups such as bankers, auditors, bank managers, CSR industry professionals, and an academic professor. They were asked to express their opinions about current understandings of CSR in China, current CSR practices, the factors which influence CSR practice, important stakeholders in the CSR process and banks' motivations to implement and disclose CSR.

The study addresses the following research questions in the context of Chinese banking:

- What is the understanding of the concept of Corporate Social Responsibility? Who are the most important stakeholders? Are there any cultural or political influences on this?
- What are the motivations to implement and disclose CSR activities? How does CSR influence banks' operations management, especially lending decisions?
- How have CSR disclosure practices developed since their inception in the Chinese banking industry?

The following sections will conclude the main findings of the study in order to answer these research questions and provide an understanding of CSR in the

Chinese banking industry. The findings from interviews will be outlined first, to providing the answers for the first two questions; and then content analysis will give the answer for the third question regarding disclosure issues.

8.3 Research Findings from Interviews

There is a large body of literature which tries to define CSR. Dahlsrud (2006) argued that in both the corporate and academic worlds there is uncertainty as to how CSR should be defined, and there is no one definition. The answer to the first research question includes the issues of definition, importance, and awareness of CSR, as gathered from the interviews.

8.3.1 Interview Experiences in China

The interviews were carried out with 19 interviewees who were chosen to be contacted as the author felt that they may have particular understanding and knowledge of corporate social responsibility in the context of the Chinese banking industry. Moreover, the author was in a position to establish a trusted relationship with them through personal contacts, such as family relations, previous colleagues, or being introduced by friends. It is important to have personal relationships, which are called ‘Guanxi’ in China, when you try to establish contact in order to undertake an interview. As a result of Chinese cultural and political history it is difficult to find people to agree to be interviewed and who feel free to talk during the interview. All potential interviewees required the author to explain the purpose of the interview first before they would consider the possibility to take the interview. After each interview, the author established friendships with many of the interviewees, and was able to keep in contact and review subsequently some interview points through email or social media.

8.3.2 The Concept of Corporate Social Responsibility and Important Stakeholders under the Cultural and Political Backgrounds

In this research, all 19 interviewees agreed that corporate social responsibility is a new concept in China, and could contribute to the sustainable development of Chinese society. They gave the meaning of CSR differently depending on their different backgrounds and the nature of their work.

There are two main categories of understanding which were given by the interviewees. The first category of CSR understanding is similar to the definition provided by Western associations such as the ACCA which presents CSR as a business strategy whereby organizations integrate social, environmental and stakeholder concerns. There were four interviewees who did not have a clear concept of CSR and couldn't give an official definition, due to what they termed a lack of formal education and information about the area. In addition, they did not feel that CSR was relevant to their daily work in the bank, as CSR was not seen to help them to achieve their sales targets or improve their working performance, but they also saw CSR in the context of 'philanthropy' and 'donations'.

The interviewees such as CGB2 gave answers for the meaning of CSR which can be considered from stakeholder, institutional, and legitimacy perspectives. They defined CSR as a business strategy to balance stakeholder interests and build the organization as an excellent corporate citizen and promote the harmony of business growth.

This interviewee thought that the bank tried to be legitimate and donated to the earthquake in the same way as other banks did. From the institutional perspective, this

is a clear example of mimetic isomorphism. Moreover, the findings from the interviews about the recent meaning of CSR shows that CSR is mainly thought of as philanthropy and donations in China, and people realize that it could contribute to a harmonious society. Interviewee AF3, from the auditing firm, claimed that the original recognition and understanding of CSR was often limited being reflected, typically, in restricted actions such as philanthropy, donations, and saving energy. She also claimed that the meaning of CSR is changing and developing into a business strategy, as banks have started to realize that CSR activities can influence their relationships with their stakeholders.

There was wide agreement amongst the interviewees that the Chinese government is the most important stakeholder, and that banks have used CSR strategy to manage and balance their stakeholder relations and interests. Some of the interviewees only gave a sentence for answering the question, such as “of course it is the government”, or “the government is the big boss in China”.

Interviewee CGB4, who works at the bank president’s office in one of the “big four” government state-owned banks, explained the meaning of CSR thus facilitating identification of the most important stakeholder from the stakeholder, institutional and political economic perspectives. She argued that the recognition of CSR from the Chinese society as a whole still remains at a basic level as philanthropy, donation, and stakeholder relationships. Moreover, ‘Green’ is a hot topic in China in the big institutional picture. The most important stakeholder, government, is pushing green GDP. Therefore, we should follow the government direction to implement green finance, support low carbon projects, and green lending.

All of the interviewees in this research expressed in explicit or implicit ways that the political economic and cultural backgrounds influenced the identification of the most important stakeholder and establishing the stakeholder relations in China. Moreover, the interviewees claimed that establishing good ‘Guanxi’ with the government is the key factor for most businesses to achieve success in the Chinese market. For instance, interviewee AF2, from an auditing firm, noted that: “all of the business’s decisions which are being made in China have to show concern about the local cultural and political background. If you want to play the game, then you must follow the local rules. The Chinese ‘Guanxi’ theory is a big lesson we should learn in China. For example, we have to establish good ‘Guanxi’ with the government regulators who are responsible for supervising our business sector. Moreover, we also want to have government support and approval, in order to build a good public image and have a competitive advantage. Maybe it seems like too political in western countries, but we think it is the normal culture in China”.

The interviewees from foreign banks considered the meaning of CSR as a key business strategy for making the business successful in the Chinese cultural and political contexts from the legitimacy, stakeholder management and institutional perspectives. They explained that they had to do the same things as the local banks, such as philanthropy and follow the government direction under the big institutional background in order to gain the public recognition, government support and approval. The foreign banks also treat the Chinese government as the most important stakeholder, and have followed the government’s direction to donate money to poor areas and following the Chinese earth quake disaster in 2008. Interviewee from the foreign bank noted that: “Top three stakeholder rankings are government, shareholder,

and media”. He explained the ranking as the media is centrally controlled by the government in China, and if his organization has established the good ‘Guanxi’ with the local government and media, then the Chinese clients will trust the foreign bank as an ethical, legitimate and reliable financial institution.

The interviewees pointed out that winning the government’s approval and support is the key way to survive in the Chinese market, due to the central government’s control of most of the important industries, such as media and finance and that it holds the rights for award or penalty in the commercial area. In contrast with the commercial and foreign banks’ concerns, although the interviewees from the Chinese government state-owned bank also considered the government as the most important stakeholder, they were less concerned about currying cultural and political influence, as they saw their organisations as part of the government. They were more concerned about how to be a good and leading example in the banking sector.

8.3.3 The Motivations for Implementing and Disclosing CSR

The interview findings about the motivations for implementing CSR and disclosing CSR information tended to differ according to the kind of organization that the interviewees worked for. These can be split into four categories as follows.

First, the interviewees from the auditing firm, the academic and the CSR professional consultant claimed as more significant the stakeholder perspective aspects including meeting the requirements and guidelines from important stakeholders, such as the government regulators, Stock Exchange and foreign investors. They also emphasized that not all the stakeholders were treated as equally important, because the small

shareholders who bought the company's shares did not really see CSR as a key element or factor which could influence their trading decision. Moreover, the interviewee from the CSR consultancy firm considered the motivations for issuing CSR reports from the normative isomorphism perspective. He claimed that some of the Chinese banks have paid CSR consultancy firms for professional CSR advice, editing and publishing the CSR reports. Therefore, banks have produced similarly formatted and key contents in their CSR reports and under taken similar CSR activities.

Secondly, the responses of the interviewees from foreign banks emphasized that they implemented CSR from the stakeholder, institutional and legitimacy perspectives. First of all, referring to mimetic isomorphism, the foreign bank was copying local banks activities, such as donations, philanthropy and applying CSR guidelines, in order to be seen as a legitimate business. Moreover, they also used CSR as a business pathway to enter the Chinese market, survive in the market and establish the good 'Guanxi' by meeting the stakeholders' interests, which included local government, regulators and the public.

Thirdly, the Chinese commercial bank interviewees appeared aligned with the motivations from the stakeholder and institutional perspectives too. The interviewees claimed that if the commercial bank was listed on the stock market, then it would face pressure from stakeholders which include government regulators, such as the China Banking Association and Stock Exchanges. The interview results show that the medium sized commercial banks also implemented CSR as a business strategy, as they copied each other's behaviour (mimetic isomorphism) in order to win a higher

reputation, more exposure opportunities and government's approval. They felt that this was necessary as they were not having the similar government background as the state-owned banks, and they also lacked opportunity in national lending or financing projects.

Finally, in contrast to the results from those interviews, the fourth group of interviewees, who came from the government state-owned banks, appeared to be less aligned with the stakeholder and legitimacy perspectives, such as needing the government's support by implementing CSR as they treated themselves as a part of the government. This position suggests association with the institutional perspective on organization particularly in regard to coercive pressures; i.e. that they were facing pressure for doing CSR better than non-state-owned banks. They complained that other banks believed that the government state-owned banks were expected to set a good example, and provide a leading position on doing everything, including CSR activities and disclosures.

In terms of how CSR influences banks the author expected that interview answers would relate to the influences on business behavior, daily operations and dealing with stakeholders. However, the outcome of the interviews seemed not to focus on what the banks actually do, or how CSR influences their behavior. The majority of the interviewees, including the interviewees from foreign banks, assumed that the reporting and implementing of CSR could add value to financial performance in the long term, could enhance the business's reputation, improve stakeholder relations and, especially, could avoid government regulators' penalties. More than half of the interviewees believed that CSR would increase costs, and might lead to a decrease in

a business's short term profit. But they also emphasized that CSR is a tool to create value in the long-term.

Three interviewees were involved in the bank's lending procedures and they gave their opinions on how CSR influences lending decisions from what can be interpreted as legitimacy and stakeholder perspectives. All of them stated that as a responsible bank, seeking to maintain legitimacy, they had to consider and measure the level of damage to the environment or to the public interest before making lending decisions. Moreover, they claimed that after applying the 'Green Credit' policy, banks restricted any lending away from high pollution and high energy consumption activities and overcapacity industries and sectors. On the other side, one of the interviewees from the Chinese commercial bank complained about the pushing of the Equator Principles in the bank. He described himself as a middle person who was facing pressure and blame from different stakeholders, which included top management which was pushing adherence to the Equator Principles, the colleagues who were responsible for the lending business and wanted to earn more bonuses, and the clients who had to pass the Equator Principles standards to get the loan. He raised the issue of 'sacrifice' in the sense of loss of part of the lending business by implementing the Equator Principles, in order to be legitimate and win popularity and approval from the most important stakeholder, government. He emphasized that his hope was that solving this kind of conflict in the future lay in unifying stakeholders' interests.

Semi-structured interviews applied in this research have explored the first two research questions which include the CSR concept, important stakeholders, and motivations to implement CSR especially on lending decisions. The findings from the

semi-structured interviews and content analysis showed some consistency, and prereading of the CSR reports helped in developing the semi-structured interview questions. The third research question which regards the development of CSR disclosure in the Chinese banking sector was explored by the content analysis and key findings will be outlined in the following section.

8.4 Research Findings from Content Analysis

The second research method - content analysis, including a disclosure index, presented an overview illuminating the development of all banks' CSR reports released up to June 2010, comprising 55 CSR reports in total, from 19 banks in the Chinese banking industry, which include one policy bank, five state-owned commercial banks, seven joint-stock commercial banks, four city commercial banks (joint-equity), and two foreign commercial banks. These banks have been chosen from over 150 existing banks in China based on the data published by China Banking Regulator Commission (CBRC) and China Banking Association (CBA) which indicated that they had published a CSR report. 15 of the 19 banks are listed on the two Stock Exchanges in China, and they complied with at least one of China's Stock Exchange guidelines from the Shanghai or Shenzhen Stock Exchange. Other guidelines that were used by banks were the GRI guidelines and the China Banking Association guidelines. Some of the CSR reports complied with more than one guideline from different associations. The author analyzed the population of 55 CSR reports according to the GRI indicator categories, which includes a Financial Services Sector Supplement. There are four banks (two Chinese and two foreign) which are not stock exchange listed but which published CSR reports apparently wholly voluntarily. The two Chinese banks are China Development Bank (CDB) which applied the GRI guidelines, and Chongqing Bank (CQB) which applied the Shanghai Stock Exchange

Guidelines even without being listed. The two foreign banks which published a CSR report - Citibank China and HSBC - did not explicitly identify the guidelines they adhered to in any of their CSR reports. This is a clear coercive isomorphic element in the reporting by listed banks with a possible mimetic or normative influence on the two non-listed Chinese banks.

After analyzing the 55 CSR reports, the author observed that the only CSR report in 2005 which contained 34 pages. Four reports in 2006 with average 61 pages, due to China Merchant Bank disclosed 126 pages of the first CSR report which summarized the history, development, and CSR issues from 1987 to 2006. The trend of increasing of pages can be seen from 2007 to 2009 with the average number of pages of the report increasing from 49 to 62 pages. Nonetheless, some of the CSR reports remained with the same numbers of pages and structure. For example, Shenzhen Development Bank, which did not provide any guideline information to the public, but only disclosed 6 pages to show their corporate social responsibility for both 2008 and 2009. In contrast, ICBC, which followed the GRI guidelines for each of its three reports, disclosed 71 pages in the first report, and then published more than 120 page reports for the following two years.

Shanghai Pudong Development Bank (SPDB) was the first and only Chinese bank to disclose what they claimed to be a CSR report in 2005. After analyzing the first report, the author found that it focused on giving an introduction about SPDB and disclosing information about the development of the bank rather than CSR implementation. One year after, in 2006 the China Construction Bank and HSBC published corporate social responsibility reports. Then in 2007, 12 banks provided corporate social responsibility

reports, and in 2008 and 2009, all 19 banks in this research issued corporate social responsibility reports to the public.

The results obtained from the content analysis of the CSR reports from the Government State-owned banks show that the substance of all of them indicated more concern about the wider economic context in China, which is consistent with a process of coercive isomorphism in the context of the economic and political perspectives; for example, they disclosed about adaptations to the economic situation, changes in macro-economic adjustments, people's livelihood, social harmony, supporting economic development, and financing national development projects. Moreover, the interview results from the interviewees who worked at the government state owned banks are compatible with these report analysis findings. These interviewees claimed that as a part of the government, they did have the responsibility for promoting national economic growth and supporting national infrastructure projects.

The analysis of the CSR reports from 2006 to 2009 indicates that different categories of banks disclosed the similar major events in the country, such as growing environmental awareness, and philanthropy in each year - this suggests that mimetic isomorphism and legitimacy perspectives are valid. Moreover, totally four CSR reports in 2006 showed that the banks started to discuss stakeholder relations in the context of responsibilities towards the state, customers, shareholders, and staff. For example, all four CSR reports disclosed information about staff training; China Construction Bank disclosed GRI's indicator FS11 which is skills management and lifelong learning that supports the continued employability of employees as follows:

“In 2006, CCB increased its input in staff training to allow comprehensive training at multiple levels through different channels” and the report goes on to emphasize the amount of money spent (CCB CSR report 2006, p.33).

There were 12 banks which issued CSR reports in 2007. Whether they were the Chinese local state owned or commercial banks or foreign banks, all of them disclosed a section or at least a sub-section of discussion addressing the relationships with stakeholder groups. The banks clearly appeared to be emphasizing legitimacy in terms of adapting to government priorities by disclosing their CSR activities especially on environment protection. For example, the banks discussed the impact of the ‘Green Credit and Lending’ policy, which was also mentioned by the interviewees, as: increased credit support to enterprises that were involved in recycling, energy conservation and emission reduction and strictly controlled credit extension to high pollution, high energy consumption and high emission industries. The Chinese banks such as ICBC and China Construction Bank and Bank of China initiated the launch of ‘Green Financial Products’ in 2007. Further, the Chinese banks started to state their activities about preparation work and support for the most important event for the government at that time which was the 2008 Olympic Games in China. The findings from analyzing the CSR reports and semi-structured interviews both provide evidence that in this year, the 12 banks tried to learn from each other’s CSR activities which can be considered as mimetic isomorphism, in order to manifest that the bank is legitimate, that it paid attention to stakeholders’ interests, and that it followed the government’s direction (identified by several participants as the most important stakeholder) to support national events and implement ‘Green Credit’ policy, which is a clear example of coercive isomorphism.

All of the 19 banks in the research population issued CSR reports in 2008 and 2009. The analysis shows that the CSR reports focused on ‘philanthropy and donation’ matters due to a devastating earthquake which hit Wenchuan in 2008 and at that time was the biggest issue in China. During the semi-structured interviews, interviewees emphasized the significance of reacting to the earthquake disaster by the banks, especially in terms of donations. In accordance with the legitimacy, coercive isomorphism and stakeholder perspectives, the interviewees also claimed that the bank would be marginalized and treated as illegitimate if the bank did not follow the government’s encouragement of donating to the disaster. The evidence from the content analysis is consistent with the answers from the interviewees, and shows that all of the banks examined reported their earthquake relief activities, such as setting up tent banks, mobile banks and a green credit channel in disaster-hit areas. Moreover, all the banks disclosed the amount of donations from the bank and staff to the affected areas in support of the reconstruction efforts.

The political and economic background was evident in the 2009 CSR reports, when the banks emphasized that 2009 was a year of challenges: they were confronting the impact of the global financial crisis, and stating that they were paying more attention to the long-term development of environmental protection, especially with regard to efforts for a low carbon economy after the Climate Conference in Copenhagen and the government’s direction of improvement of energy efficiency and emission reduction. In addition, the most frequently mentioned words ‘Green Bank’, ‘Green Products’, ‘Green Credit’ and ‘Low Carbon Economy’ by the interviewees also became the sub headings of the environment section, and repeatedly used words in the banks’ 2009 CSR reports.

There are some consistencies from the findings of the interviews and content analysis. Some of the interviewees' answers are consistent with the disclosure of the CSR reports, such as the banks having desires to have a good reputation. Moreover, the findings are consistent with conventional theoretical perspectives, which suggest that the banks learned each other's behavior and tried to be, and remain, legitimate. Nevertheless, the author finds some interesting issues which were not included in the CSR reports, and identifies some tensions between the employees' perspectives and the perspective given by the CSR reports. Some interviewees who worked in the middle or lower level of the bank found the environmental agenda, such as the 'Green Credit' policy problematic as it impacted negatively on their ability to earn sales bonuses. Therefore, the findings from the interviews and content analysis also show a contradiction between the employees' incentives such as making more bonuses and the perspectives given by the bank's CSR report. In addition, from the institutional theory perspective, the evidence from interviews and content analysis show that the banks are starting to report in terms of mimetic isomorphism (the other banks are doing it so we had better), in terms of coercive because of the regulations, and in some normative effects as some consultancy firms are advising on producing CSR reports.

8.5 Research Contributions, Limitations and Suggestions for Future Research

8.5.1 Contributions

This study has made contributions in a number of areas. Firstly, this thesis gives indications of typical disclosure in the first 5 years of Chinese banks' CSR reports, especially in highlighting the common points. The author gives commentary on the examples of disclosure, identifies the typical disclosures and in particular tries to

demonstrate major issues which are reflected in the reports. Second, this study has summarised the guidelines that the banks adopted, and has given an overview of the regulatory framework in which the Chinese banks started to report.

Third, it was difficult to arrange interviews in China in the political and cultural context, such as interviewees being concerned about the interview results possibly being used for media publishing or government research. Therefore, the author explained the purpose of the interviews and gave small gifts at the beginning of interviews, in order to build a trust relationship and establish a good ‘Guanxi’ with interviewees. The author has made a contribution on exploring how to establish contacts for research in China, and managed to undertake interviews, and to obtain insights from a range of people working for banks, a CSR consultancy, a university and auditing firms. The author has obtained fairly frank statements from the interviewees and still keeps good links with them for further studying and collaboration.

Fourth, the author considers and presents the research findings in the context of a range of theoretical perspectives, which are stakeholder theory, legitimacy theory, institutional theory, and political economy theory; and explores the different theoretical perspectives and their insights in the Chinese context. These four complementary theories can be useful for getting a better understanding of the phenomenon of CSR in the Chinese banking sector, such as exploring the most important stakeholder. The Chinese government and government’s regulators are acknowledged as key stakeholders by the banks, and the banks publication of CSR reports has been analysed as consistent with legitimacy and institutional theory

perspectives, within the Chinese political economy background.

Finally, this research identifies the difference between some of the internal perspectives of some employees and the public image of banks given by their CSR reports; it shows a contradiction between certain employees' incentives and the perspectives given by the bank's CSR report, such as the conflict between the Green lending policy and the motivations of employees. Although it is clear that not all the people working in the bank think in the same way, the people who were working in the key areas such as the lending department and the financial products' sales claimed that they need more CSR education or training and identified a need to review the way incentives operate in the bank.

8.5.2 Limitations

Any research process remains subject to limitations. This section is going to outline the limitations and is divided into three categories: (1) literature limitations; (2) the limitations of qualitative interview samples; (3) the limitations in content analysis.

First, the previous literature about CSR offers a rich source of information on CSR recognition, theories and development in developed countries, but in the context of this study was a limitation in terms of insufficient number of studies specific to China, especially in the Chinese banking industry. Although there are researchers who have chosen to analyze CSR in China as a whole, they have not examined specific industries such as the banking sector.

Secondly, as with any academic study, there is a limitation relating to the interview sample analyzed. The qualitative method of interview of this study analyzes the data

from 19 interviews with a range of informed parties, comprising: three auditors from an international auditing firm in Beijing, three bankers from a Beijing branch of a western bank, one bank branch manager from a Japanese bank, one CSR professional consultant from a CSR consultancy and study centre, six banking managers and PR staff from local Chinese commercial banks, four PR staff and a branch manager from Chinese government state-owned banks, and one academic professor from the social relationship department of a Chinese university. In fact, the author attempted to find more interviewees in order to obtain a larger research sample; however this was impeded as research in China on CSR related subjects including important stakeholders, government policies and regulators' guidelines are politically sensitive. Although the author guaranteed the confidentiality of the interviews, there were still many people who refused to take the interview. This problem leads to a research limitation in the number of participants, which means that any attempts to generalize from the results needs to be undertaken with significant caution.

Finally, a limitation of the research period is its focus on analyzing the 55 CSR reports from 19 banks from 2005 to 2009 which were quoted on the Chinese regulators' official publications or websites. However, this is, arguably, a key period of publishing CSR reports in the Chinese banking industry, which saw the first report in 2005 and 19 by 2009. Moreover, there is a limitation in use of the disclosure index as this research did not focus on measuring volumes of different kind of disclosure and assessing their quality, it simply identified the presence or absence of disclosures according to the GRI requirements, though key examples of disclosures were also presented and discussed.

8.5.3 Further study

Due to the lack of research into CSR in the Chinese banking industry, there are many potential avenues for future research, in different areas of CSR, to fill the gap in the literature about CSR development and implementation in the Chinese banking sector.

First, further research could investigate ‘how the banks implement CSR activities’, especially in daily work and business strategies, particularly as the interviewees in this research preferred to discuss the benefits that CSR could bring to the business instead of discussing how to implement CSR. Further research into this area by more, and more in-depth, interviews in the future could provide a better understanding of the difficulties in implementing CSR, and could investigate potential contradictions between the internal motivation of the staff and the legitimacy-seeking, public image of the bank.

Secondly, future research could look at whether changes in banks’ lending policies really have been influential in China, such as through efforts to save the environment or changing the ways that banks or other industries work. Under the political economic context, the bank works as an important part of implementing government’s policies; further work could explore how banking activities can further pursue the government agenda, as well as reacting to broader societal and international pressures.

Thirdly, the particular political economic context of China has been referred to throughout this thesis and further work could perhaps address this issue in great-depth. While evidence within the banking sector can be found which is consistent with stakeholder, legitimacy and institutional theory perspectives, it may be that the

Chinese socio-political environment itself may be subject to similar pressures on a wider international scale. The encouragement within China for banks and other entities to take on CSR objectives and CSR disclosure could for example, be consistent with mimetic and coercive isomorphism acting at state level to improve perception of the legitimacy of Chinese organizations and of the Chinese government itself.

8.6 Concluding Remarks

This chapter has concluded on the findings in the study. The influence of cultural, political, and economic factors on CSR development and implementation are evident and the Chinese government is widely seen as the major stakeholder. Based on these findings, the author has outlined the contributions of the research, and attempted to give some directions for the potential future research of CSR in the Chinese banking sector.

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Appendix 6.1

GRI Financial Services Sector Supplement Reference Sheet

Product Portfolio (FS)

FS1	Policies with specific environmental and social components applied to business lines.
FS2	Procedures for assessing and screening environmental and social risks in business lines.
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organization has interacted on environmental or social issues .
FS11	Percentage of assets subject to positive and negative environmental or social screening
FS12	Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting .
FS13	Access points in low-populated or economically disadvantaged areas by type.
FS14	Initiatives to improve access to financial services for disadvantaged people .
FS15	Policies for the fair design and sale of financial products and services.
FS16	Initiatives to enhance financial literacy by type of beneficiary.

Economics Performance (EC)

EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change .

EC3	Coverage of the organization's defined benefit plan obligations .
EC4	Significant financial assistance received from government .
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, inkind, or pro bono engagement.
EC9	Understanding and describing significant indirect economic impacts , including the extent of impacts.

Environmental (EN)

EN1	Materials used by weight or volume .
EN2	Percentage of materials used that are recycled input materials .
EN3	Direct energy consumption by primary energy source.
EN4	Indirect energy consumption by primary source.
EN5	Energy saved due to conservation and efficiency improvements.
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.
EN8	Total water withdrawal by source.
EN9	Water sources significantly affected by withdrawal of water .
EN10	Percentage and total volume of water recycled and reused .
EN11	Location and size of land owned , leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas
EN13	Habitats protected or restored.
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.
EN16	Total direct and indirect greenhouse gas emissions by weight.
EN17	Other relevant indirect greenhouse gas emissions by weight.
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.
EN19	Emissions of ozone-depleting substances by weight.
EN20	NO, SO, and other significant air emissions by type and weight.
EN21	Total water discharge by quality and destination
EN22	Total weight of waste by type and disposal method.
EN23	Total number and volume of significant spills .
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and

	VIII, and percentage of transported waste shipped internationally .
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.
EN27	Percentage of products sold and their packaging materials that are reclaimed by category .
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.
EN30	Total environmental protection expenditures and investments by type.

Labor Practices and Decent Work (LA)

LA1	Total workforce by employment type, employment contract, and region
LA2	Total number and rate of employee turnover by age group, gender, and region.
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.
LA4	Percentage of employees covered by collective bargaining agreements
LA5	Minimum notice period(s) regarding operational changes , including whether it is specified in collective agreements.
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.
LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases .
LA9	Health and safety topics covered in formal agreements with trade unions.
LA10	Average hours of training per year per employee by employee category.
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
LA12	Percentage of employees receiving regular performance and career development reviews.
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.
LA14	Ratio of basic salary of men to women by employee category.

Human Rights (HR)

HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
HR4	Total number of incidents of discrimination and actions taken.
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.

Society (SO)

SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities , including entering, operating, and exiting.
SO2	Percentage and total number of business units analyzed for risks related to corruption.
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures .
SO4	Actions taken in response to incidents of corruption .
SO5	Public policy positions and participation in public policy development and lobbying .
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country .
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes .
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations .

Products Responsibility (PR)

PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.
PR2	Total number of incidents of non-compliance with regulations and

	voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.
PR5	Practices related to customer satisfaction , including results of surveys measuring customer satisfaction.
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications , including advertising, promotion, and sponsorship.
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.

Appendix 7.1 - Interview Questions

- 1) What is your job title? How long have you worked for the bank? Can you give some indication of your own background?
- 2) Can you explain your organization's understanding of Corporate Social Responsibility? How CSR influence your organization's operation management and your relationship with stakeholders? What effect if any, has it had on your business processes, in particular on your green lending criteria. Does CSR influence your personal daily work?
- 3) China Banking Association (CBA) advised all banks to produce a CSR report for submission to CBA by the end of June 2009. What effect has this regulation had? Has it changed your reporting procedure? And does your organization apply any other guidelines?
- 4) What do you think is the motivation for CBA to give the guideline? And what are the motivations for your organization to implement CSR and produce CSR reports?
- 5) Who do you think are the important and main readers for the CSR report?
- 6) The guideline says: "borrow and learn from the Equator Principles if applicable to the economic and financial development of China". Could you comment on the relevance of this requirement for your bank?

- 7) Do you think the (a) Chinese local Culture, (b) the organization's origin and (c) the Chinese political background influence CSR activities in your bank? Do you have any examples? Does the global financial crisis which has started from 2008 influence your bank's operation and CSR activities?
- 8) Are there any differences in approach to CSR between Chinese banks or banks with overseas headquarters? For foreign banks, are CSR policies set by overseas headquarters or do you set your own guidelines for CSR?
- 9) What are the most significant sections in your CSR report or disclosure purpose? And could you explain the relative important of stakeholders? Such as government, employees, customers, communities.
- 10) Is there any plan for future improvement of CSR activities in the bank? And do you have any suggestions to the government for CSR regulations?
- 11) Do you think CSR guidelines should be issued for other business sectors apart from banking?